THE ECONOMIC DEVELOPMENT SECTION OF THE PRESIDENT'S NATIONAL CAPITAL REVITALIZATION AND SELF-GOVERNMENT IMPROVEMENT PLAN

HEARING

BEFORE THE

SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

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THE ECONOMIC DEVELOPMENT SECTION OF THE PRESIDENT'S NATIONAL CAPITAL REVITALIZATION AND SELF-GOVERNMENT IMPROVEMENT PLAN

THURSDAY, MAY 22, 1997

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:40 a.m., in room 2154, Rayburn House Office Building, Hon. Tom Davis (chairman of the subcommittee) presiding.

Present: Representatives Davis, Morella, Horn, and Norton.

Also present: Representative Moran.

Staff present: Ron Hamm, staff director; Howard Denis, counsel; Anne Mack and Roland Gunn, professional staff members; Ellen Brown, clerk; Cedric Hendricks, minority counsel; and Ron Stroman, minority professional staff member.

Mr. DAVIS. Good morning and welcome.

This is the sixth hearing of our subcommittee as we continue to review the administration's National Capital Revitalization and Self-Government Plan. Now that the administration and the District government have signed a Memorandum of Understanding, we can proceed with our congressional review in an orderly manner.

I am pleased to welcome my friend and colleague from northern Virginia, Jim Moran, a member of the Appropriations Subcommittee for the District, to sit with us on the dais and participate in this hearing. The economic revitalization of the city is something that I know Representative Moran has had a strong interest in since he came to Congress.

I know that the signing of the MOU was preceded by hard negotiating on both sides. All involved should be proud of their diligence. Any underlying legislative language will not be rubberstamped by the Congress. The MOU is essentially the first step in a process that will hopefully lead to a bill to be signed by the President. But clearly, you can't get to second base until you touch first base. With the MOU signed, this subcommittee and Congress will move forward as rapidly as possible. But all concerned, we must realize that the window of opportunity is very narrow, and we have to move ahead promptly or be overtaken by the congressional calendar.

With that in mind, I ask unanimous consent that the MOU be made part of the permanent record, along with Council Resolution 12–116. Hearing no objection, so ordered.

[The information referred to follows:]

MEMORANDUM OF UNDERSTANDING BETWEEN:

THE DISTRICT OF COLUMBIA

Marion Barry, Jr., Mayor

Marion Barry

Charlene Drew Jarvis,
Council Chairperson Pro Tempore
(January 2, 1997 - May 6, 1997)*

Charlene Drew Jarvis

Linda W. Cropp, Acting Chairman
(May 6, 1997 - August 1, 1997)*

Linda W. Cropp

*Pursuant to Council Resolution 12-116, the Memorandum of Understanding on the President's "National Capital Revitalization and Self-Government Improvement Plan" Emergency Resolution of 1997.

OFFICE OF MANAGEMENT AND BUDGET, EXECUTIVE OFFICE OF THE PRESIDENT

Franklin D. Raines
Chair
President's District of Columbia Task Force

Dated: May 14, 1997

SECTION I. PURPOSE

The parties respect the Home Rule Charter as the fundamental basis for governance in the District. The purpose of this memorandum is to strengthen Home Rule and to agree to work toward the revitalization of the District of Columbia. By providing for additional District government functions, the Federal government will enable the District to focus its resources on the functions that remain. In some cases, however, this memorandum provides for Federal assumption of not only funding for certain government functions, but Federal assumption of management of those functions as well. While this is appropriate in limited circumstances, the parties generally favor the principle of local management over District government functions, regardless of the source of funding for those programs. The parties also favor local control over locally raised revenues. The parties have agreed to disagree on whether the Federal Payment should continue after this program goes into effect.

This memorandum is intended only to improve the management of, and the relationship between, the District of Columbia and the Federal government, and is not intended to and does not create any right, benefit, trust or responsibility, substantive or procedural, enforceable at law or equity by a party against the United States or the District of Columbia, its agencies, its officers, or any person.

SECTION II. PUBLIC LAW 104-8, "THE DISTRICT OF COLUMBIA FINANCIAL RESPONSIBILITY AND MANAGEMENT ASSISTANCE ACT OF 1995"

The parties recognize the provisions of PL 104-8 and dedicate themselves to the cooperative implementation of these provisions. Among these are:

Finance.

- For each Fiscal Year for which the District is in a control period, the Mayor shall develop and submit to the Financial Responsibility and Management Assistance Authority (the "Authority") and District Council a Budget and Financial Plan for the applicable Fiscal Year and the next three Fiscal Years.
- Expenditures for the District government for each Fiscal Year, beginning in FY1999, may not exceed revenues for that Fiscal Year.
- During Fiscal Years 1996, 1997, and 1998, the District government shall make continuous, substantial progress toward equalizing its expenditures and revenues.
- The District may not borrow money during a control year unless the Authority provides prior certification that the borrowing is consistent with the financial plan and budget for the year.
- For the Secretary of the Treasury to make a short-term advance to the District: (1) the Mayor must submit, among other things, a requisition for an advance; (2) the Authority and the

Inspector General each must certify, among other things, that (a) the Authority has approved a Budget and Financial Plan for the District for the Fiscal Year in which the requisition is made, (b) the District is in compliance with the Authority-approved Budget and Financial Plan, and (c) the borrowing and repayment of the short-term advance is consistent with the Authority-approved Budget and Financial Plan; (3) the District and the Authority each must certify that the District lacks market access on reasonable terms; and (4) the Secretary must determine that the Treasury has reasonable assurance of being reimbursed.

Management.

- An Office of the Chief Financial Officer will be established in the Executive Branch of the District government, headed by the Chief Financial Officer, and including the Office of the Treasurer, Controller, Budget, Financial Information Services, and Finance and Revenue.

- An Office of the Inspector General will be established in the Executive Branch of the District government.

- During the control period, the Mayor shall submit proposed contracts and leases to the Authority for review, and cannot enter into a contract or a lease unless the Authority determines it is consistent with the Budget and Financial Plan.

- The Authority may submit recommendations to the Mayor, the Council, the President, and Congress on actions the District or Federal governments may take to ensure the District's compliance with a Budget and Financial Plan and promote its financial stability, management responsibility, and service delivery efficiency. The Mayor and the Council shall submit a statement to the Authority, President, and Congress providing notice as to whether the District will adopt the recommendations. An affirmative statement must include a written implementation plan, with performance measures and a schedule for audit compliance. If the statement rejects the recommendations, the Authority may vote to take what actions it deems appropriate, after consulting with the Senate Governmental Affairs Committee and the House Government Reform and Oversight Committee.

SECTION III. GENERAL PROVISION

Balanced Budget. PL 104-8 requires that the District balance its budget by FY1999. By this agreement, the District agrees to present and/or approve a balanced budget for the Fiscal Year beginning October 1, 1997.

SECTION IV. SUBMISSION OF LEGISLATION & FEDERALLY ASSUMED FUNCTIONS

As Chair of the President's District of Columbia Task Force, the Director of the Office of Management and Budget intends to recommend the submission of legislation to the Congress that is consistent with the National Capital Revitalization and Self Government Improvement Plan (the "Plan") announced by the President on January 14, 1997.

Once implemented, the Plan will provide the District substantial relief from its operating expenditures, relief which will grow over time. It will also invest considerable resources to improve the District's criminal justice systems and capital infrastructure. If this legislation is enacted, the Federal government will undertake the functions described below. The Federal government will not undertake a function until the District government meets the conditions for that function, described in Section V.

1. ***Medicaid.*** The Federal government will increase its share of the District's Medicaid payments to 70 percent, thereby reducing the District's share to 30 percent. The Department of Health and Human Services will continue to provide more intensive technical assistance to help the District improve the management of its Medicaid program.

2. ***Pensions.*** The Federal government will take financial and administrative responsibility for virtually all pension benefits accrued under the plans for all active and retired police and firefighters, and teachers, and will take full responsibility for the pensions of judges. The bulk of the assets of the retirement plans will be transferred to the Federal government and placed with a third party Trustee chosen by the Secretary of the Treasury. A significant amount of assets will be left with the District of Columbia to fund the benefits of participants in the District's plans and to reduce the District's annual contribution. The Trustee will invest funds, manage the existing plans, and make payments on behalf of beneficiaries. The Federal government will pledge its full faith and credit to meet its responsibilities to pay these benefits. Current retirees will have all their benefits paid by the Federal government. Retirement, death, and some disability benefits payable by the Federal government to current employees will be based on service earned as of the date the legislation is introduced. While the Federal government will not be responsible for benefits earned during future years of service by members of the current retirement programs (other than judges), these members will get the benefit of pay increases on the frozen benefits. Frozen benefits will continue to be subject to cost-of-living adjustments under the terms of the existing programs. All future employee contributions (except for judges) will be paid into the new plans.

3. ***Treasury Loans to Eliminate the Deficit.*** The United States Treasury will provide loans of up to15-year terms to assist the District to eliminate its accumulated fund balance deficit and to manage its liquidity position. The combined amount of the Treasury loans may not exceed $500 million. The Treasury loans will have an interest rate equal to the prevailing yield on outstanding Treasury marketable securities of comparable maturity plus 1/8th of one percent. The Treasury may also provide intra-year loans for the purposes of seasonal cash-flow management.

4. ***Criminal Justice.*** The Federal and District governments will develop and implement a transition plan which transfers responsibility over a three-to-five-year period for incarcerating felons. The Federal Bureau of Prisons (BOP) will house adult felons convicted

of D.C. Code violations and designated in the same manner as Federal inmates in correctional institutions operated or contracted by the BOP. This will occur after BOP's capacity has been increased through new construction at Lorton and other locations selected by BOP, and through renovation of existing facilities at Lorton, Virginia. After October 1, 2001, the BOP will also designate to Federal correctional institutions sentenced D.C. felons in the custody of the D.C. Department of Corrections, as the Director of BOP deems appropriate, in accordance with available capacity, until they have all been designated to Federal institutions. The BOP will accept employment applications from persons currently employed by the D.C. Department of Corrections for existing BOP vacancies, and will process such applications in accordance with existing Federal procedures and standards.

The Attorney General will select, after consultation with the Mayor, the D.C. City Council, and the Chair of the D.C. Financial Responsibility and Management Assistance Authority, a Trustee to oversee operations of the D.C. Department of Corrections until the BOP assumes responsibility for all incarcerated District felons.

The Federal and District governments will develop and implement a framework for changes to the D.C. sentencing system, including the abolition of parole, institution of determinate guideline sentencing and the enactment of the new mandatory minimum drug sentences, which are a prerequisite for the Federal government accepting responsibility for the incarceration of felons convicted of D.C. Code violations. The sentencing system will be enacted within 24 months, or the Federal government will not be required to obligate any funds appropriated for the purpose of incarcerating D.C. Code felons and will have no responsibility for housing such persons.

Consulting with representatives of the Federal and District judiciary, the Federal and District governments will also develop and implement a transition plan transferring responsibility for D.C. Code violation offender pretrial, public defender, parole, probation, and post-adjudication/post-conviction adult offender supervision from the District government to the Federal government over a three-to-five-year period. The United States Parole Commission will continue to assume responsibility for all D.C. felons housed in Federal Correctional Institutions who have sentences subject to provisions of parole.

The Federal government will take direct responsibility (in consultation with the D.C. judiciary) for funding the D.C. court system and related services (including plans relating to retirement benefits and other personnel matters), and establishing an independent budgetary, financial oversight, and administrative support system for the D.C. courts. The Courts will remain self-managed, and District involvement in the selection and review of D.C. judges will not be diminished.

5. ***Economic Development***. The Federal government will assist the economic development of the District of Columbia in three ways:

First, a new economic development corporation (EDC) will be established as a public authority of the District of Columbia, with the mission of revitalizing the nation's capital city and benefitting the District's residents and businesses. The EDC will be governed by a board of directors consisting of nine voting members. Five of the board members will be appointed by the President in consultation with the Congress. Of those five, four will be selected from the for-profit business community, and one will be selected from a community-based organization. One of the board members will be appointed by the Mayor with the advice and consent of the Council, from the for-profit business community or from a community-based organization. All six of the appointed board members will be persons who either maintain a primary residence or have a primary place of business in the District. The remaining three board members will be ex officio members, one chosen by the President from the Federal government, a second who will be the Mayor or such alternates from the District government as the Mayor may from time to time designate to serve as the Mayor's representative, and a third who will be the Council Chairman or such alternates from the District government as the Council Chairman may from time to time designate to serve as the Council Chairman's representative. The EDC will be run by a Chief Executive Officer and served by a professional staff.

The Administration will seek an authorization of appropriations in fiscal year 1998 to carry-out economic development in the District of Columbia and to pay the expenses of the EDC. The EDC will evaluate existing economic development plans and will give expedited consideration to applications for financial assistance for projects contemplated by existing plans that the EDC adopts. The EDC will establish a comprehensive strategic plan for economic development and will consult with the rest of the District government in doing so. The EDC will provide financial assistance for economic development projects, directly or in participation with other sources of financing, by making loans, equity investments, and grants, but not guarantees; by leasing or conveying land; by allocating tax credits for qualified equity investments and loans; by issuing tax-exempt private activity bonds for certified qualified projects; and by issuing project revenue obligations for any economic development project that it approves. All EDC projects will be required to comply with applicable Federal and District law. The EDC will have limited powers to acquire property through condemnation by eminent domain in the name of the District of Columbia and furtherance of the EDC's statutory objectives. These provisions will be undertaken in a manner consistent with a legislative agreement being developed with the District.

Second, the Federal government will provide $250 million in tax incentives over five years to encourage business investment both downtown and in distressed communities, and to help businesses increase employment of residents of the District. There will be a new 40 percent tax credit on the first $10,000 of eligible wages in the first year of employment for employers in the District that hire certain residents of the District. Businesses that have a significant portion of their activities in higher poverty areas of the District and that have a work force at least 35 percent of which is made up of District residents will be eligible for expensing (rather than capitalizing) an additional $20,000 of business equipment and machinery acquired each year. The EDC will be authorized to issue tax-exempt private activity bonds to finance a broader range of business property than under existing District law if the business is located in a higher poverty area of the District and has a work force at least 35 percent of which is made up of District residents. The EDC will be authorized to allocate $95 million in tax credits for investors in, or lenders to, District businesses for up to 25 percent of the amount invested or loaned.

Third, the District government's revenue bond financing authority will be clarified and improved so that the District government will have legal capacity to finance projects comparable to other similar jurisdictions.

6. ***Infrastructure.*** The Department of Transportation will assume responsibility for the funding and oversight of certain National Highway System (NHS) capital projects (including roads, bridges, and transit) and NHS operations and maintenance projects (excluding police authority, National Park Service roads, and transit) in consultation with the District. The District will select the NHS projects to be funded and the Secretary of Transportation will review the District's project selections in accordance with Title 23 planning procedures. Contract administration will be performed by the Federal Highway Administration. In addition, eligibility for Surface Transportation Program (STP) funds will be expanded to include local public roads. To support NHS projects, the National Capital Infrastructure Fund (NCIF) will be established in FY1998 with $108 million for road, bridge, and transit capital projects. An additional $17 million will be provided in FY1998-03 for NHS operations and maintenance. Federal-aid funds for the District's NHS, Interstate Maintenance, and Bridge programs will be transferred to the NCIF in FY1998-03. The Administration will propose that, subject to approval by the District government, the NCIF be authorized to accept contributions from other sources.

7. ***Personal Income Tax Administration.*** At the request of, and at no cost to the District, the Internal Revenue Service will assume certain responsibilities from the District of Columbia for administering and/or enforcing D.C. individual income taxes, and the IRS may assume other responsibilities for the District on a reimbursable basis. The District government will maintain processing and collection responsibility for all other taxes. After 5 years the District and the IRS will undertake a study of the performance and benefits of the IRS' participation in District tax administration. In year six either party may terminate the arrangement. If neither party terminates the arrangement, it will continue. A new evaluation of the IRS' participation in District tax administration will be taken every subsequent five years, and both parties will retain the right to terminate the IRS participation in District tax administration.

Both during the drafting and upon enactment of the legislation to implement the Plan, the parties to the MOU will review the legislation and confer on whether any revisions to the MOU are necessary to ensure its consistency with the legislation.

SECTION V. DISTRICT CONDITIONS

The District government understands that it will be expected to undertake significant actions as part of the *National Capital Revitalization and Self-Government Improvement Plan* (the "Plan").

This section sets out the actions that the District government agrees to take as a condition of the Federal government actions under the legislation to carry out the Plan.

1. ***Medicaid***. The District agrees to develop and implement plans satisfactory to the Secretary of Health and Human Services to accomplish each of the following:

1.1. To develop an effective system for the identification and collection of amounts owed by third parties for medical care and services furnished to individuals under the District's Medicaid plan.

1.2. To ensure the timely audit and settlement of cost reports of institutional providers (including hospitals, nursing facilities, and intermediate care facilities for the mentally retarded) under the District's Medicaid plan, including prompt elimination of the backlog of such audits and settlements.

1.3. To develop and implement, directly or under contract, a comprehensive health care management information system that will standardize data base development and management, and integrate health care delivery with a public health data system. Such a system shall at a minimum have the capacity to accomplish the following functions:

1.3.1. To assist with eligibility verification;

1.3.2. To create utilization and financial profiles of providers;

1.3.3. To identify services (including preventive services) received by program beneficiaries;

1.3.4. To monitor the claims processing and other Medicaid operations of the fiscal agent;

1.3.5. To monitor the quality of care provided under managed care contracts; and

1.3.6. To coordinate information management with respect to the District's Medicaid program and other public health programs and functions.

1.4. To develop a comprehensive behavioral managed health care system, which combines substance abuse and mental health grant programs. Development of such a plan shall include a pilot project for better evaluation of in-patient acute psychiatric patient admissions, and the purchase of a comprehensive, risk-based system for managed care of behavioral health which covers all eligible populations and services.

2. ***Pensions***. The District Government agrees: (see Appendix One for definitions)

2.1. <u>To establish a Replacement Plan for the current Retirement Program</u>

2.1.1. The Replacement Plan will cover all existing and new employees (except for judges) who are, or would be, covered by the Retirement Program, if the Retirement Program continued unchanged, and will be established by the date specified in legislation.

2.1.2. To the extent required by current law, the Replacement Plan will be established through collective bargaining.

2.1.3. After the Adoption Date, the Replacement Plan may not be amended in any manner that materially increases the cost of the Replacement Plan without provision of a mechanism for funding such increases, in accordance with Section 2.2.

2.2 That the Replacement Plan will use appropriate funding methods and costs that do not exceed the sum available in the District of Columbia Budget and Financial Plan.

2.2.1. The cost of any defined benefit plan will be determined in accordance with the measurement standards of Governmental Accounting Standards Board Statement No. 27 (GASB 27), with the following additional restrictions:

2.2.1.1. funding methods will be limited to *entry age, frozen entry age, or aggregate*; and

2.2.1.2. amortization of any unfunded actuarial liability is required over no more than 30 years on a *closed* basis.

2.2.2. The cost of any defined contribution plan is the employer contribution required under the provisions of the plan.

2.2.3. All costs of the Replacement Plan must be reflected in the D.C. Budget and Financial Plan in accordance with the standards described above.

2.2.4. All costs of the Replacement Plan must be paid in accordance with the D.C. Code 1981, Title 1, Chapter 7, subchapter III.

2.2.5. Contributions of all existing and new employees (except judges) will be paid into the Replacement Plan.

2.3. To transfer copies of books and records of the Retirement Program and the Fund, including all necessary records of individual employees and to be financially responsible for errors and omissions.

2.3.1. Copies of any books and records pertaining to the Retirement Program and the Fund required by the Secretary of the Treasury or the Trustee must be made available to the Secretary or Trustee within 30 days after the Secretary or Trustee requests them.

2.3.2. The District will reimburse the Trustee for all costs, including benefit payments, resulting from errors or omissions in the books and records pertaining to the Fund.

2.4. To transfer assets from the Fund

2.4.1. Any and all assets of the Fund required to be transferred to the Trustee shall be transferred on the Transfer Date in a form specified by the Trustee.

2.4.2. The District of Columbia Retirement Board will administer the retirement programs until the Trustee assumes these responsibilities. The District government will reimburse the Fund for any benefits paid out of the Fund between the Freeze Date and the transfer date that exceed payments that would have been the responsibility of the Federal government if the transfer had occurred simultaneously with the freeze.

2.4.3. A significant amount of assets will be left with the District government to fund the benefits of participants in the District's plans and to reduce the District's annual contribution.

3. ***Treasury Loans to Eliminate the Deficit.*** The District agrees that:

3.1. Any Treasury loan to eliminate the accumulated fund balance deficit would be for no more than 15 years, with an interest rate equal to the prevailing yield on outstanding Treasury marketable securities of comparable maturities plus 1/8 of one percent.

3.2. The combined amount of the Treasury loans to eliminate the accumulated fund balance deficit and to manage its liquidity position will not exceed the amount of $500 million, except for intra-year loans.

3.3. The Secretary of the Treasury may require early reimbursement if the District can obtain credit in the commercial market on reasonable terms for refinancing as determined by the Secretary.

3.4. Before any lending may occur, the District must provide a requisition for an advance of funds and a promissory note to reimburse the Treasury for the Advance, in forms satisfactory to the Secretary of the Treasury.

3.5. Before any lending may occur, the Treasury shall consider the impact of such lending on the District's obligations to District bond and note holders.

3.6. Before any lending may occur, the Secretary of the Treasury must receive certifications from the Financial Responsibility and Management Assistance Authority and the District of Columbia Inspector General that there is an approved Budget and Financial Plan in effect for the District for the Fiscal Year in which the requisition is made, that the District is in compliance with the Authority-approved Budget and Financial Plan, and that the borrowing and repayment of the loan is consistent with the Authority-approved Budget and Financial Plan.

3.7. Before any lending can occur, the Secretary of the Treasury must receive certifications from the District government and the Financial Responsibility and Management Assistance

Authority that the District is unable to obtain enough credit elsewhere to meet the District government's need for financing.

3.8. The Federal government will work with the District government to amend its general obligation debt limit provisions in order to allow implementation of the District's capital plan in an orderly and sustainable manner.

4. *Criminal Justice.* This subsection of the Memorandum of Understanding (MOU) between the Federal government and the District of Columbia government (D.C.) outlines the offer of the Federal government, conditioned wholly on appropriations and D.C.'s acceptance and satisfaction of all other conditions and predicates identified and described herein, to assist D.C. by assuming responsibility for certain traditionally State responsibilities and the conditions that D.C. must agree to and fulfill should it choose to accept that offer as it relates to criminal justice functions, including, but not limited to, certain defendant and offender services, corrections and the judiciary. The MOU sets forth the expectations and responsibilities relating to proposed changes and reforms in the D.C. criminal justice and judicial system and the procedures (including new statutory and regulatory provisions) the Federal government and D.C. will use to implement the MOU. In particular, the MOU is designed to:

4.i. provide a framework for changes to the D.C. sentencing system, including the abolition of parole, institution of determinate guideline sentencing and the enactment of the new mandatory minimum drug sentences, which are a prerequisite for the Federal government accepting responsibility for the incarceration of felons convicted of D.C. Code violations.

4.ii. ensure that such sentencing system is to be enacted within 24 months after funding has been provided, or the Federal government will not be required to obligate any funds appropriated for the purpose of incarcerating D.C. Code felons and will have no responsibility for housing such persons.

4.iii. ensure an appropriate transfer and transition of responsibility from D.C. to the Federal government for pretrial, public defender, parole, probation, and post-conviction supervision and services for adult D.C. Code defendants and offenders.

4.iv. ensure an appropriate transfer of responsibility from D.C. to the Federal government for the incarceration of sentenced felons convicted of D.C. Code violations, assuming sufficient resources are provided by Congress to develop necessary bed space to accommodate the resulting increase in the Federal Bureau of Prisons (BOP) population and D.C. Code violators are designated in the same manner as Federal inmates.

4.v. provide the basis for establishing an independent budgetary, financial oversight, and administrative support system for the D.C. courts.

4.vi. define the respective roles of the D.C. and Federal Governments in relation to lawsuits and resulting liability, as they may be affected by the reforms agreed to in this MOU.

4.vii. ensure the development by D.C. and the Federal Governments of transition plans

4.vii.a. (in consultation with the Federal and D.C. judiciaries) for transferring responsibility for pretrial, public defender, parole, probation, and post-conviction supervision and services for adult D.C. Code defendants and offenders over a transition period of one to three years from the enactment of the federal implementing legislation.

4.vii.b. for transferring responsibility for incarcerating sentenced felons convicted of D.C. code violations over a period of approximately three to five years.

4.vii.c. (in consultation with the D.C. judiciary) for transferring responsibility for funding the D.C. court system and related services, including plans relating to retirement benefits and other personnel matters.

4.vii.d. for transferring control of the property at Lorton, Virginia to the Federal Government.

4.1. Administration of District of Columbia Pretrial, Parole, Probation, and Post-Conviction Offender Supervision, Housing, and Public Defender Services

4.1.1. Federal Government Responsibilities

4.1.1.1. After consultation with the Mayor of D.C., representatives of the D.C. Council, the Chairman of the D.C. Financial Responsibility and Management Assistance Authority (Financial Authority), and members of the affected Federal and D.C. judiciaries, the Attorney General will select an Offender Supervision, Defender and Courts Services Trustee to:

a) assure the smooth transition and continued operations of D.C.'s Pretrial Services Agency and Public Defender Service;

b) implement an orderly shutdown of the D.C. Board of Parole in coordination with the U.S. Parole Commission and the Superior Court for the District of Columbia;

c) establish and operate a new D.C. Offender Supervision, Defender and Courts Services Agency; and

d) accomplish, without disruption of services, the transfer of the adult offender probation supervision functions of the D.C. Courts Social Services Division,

until the Federal government assumes responsibility for each of these functions.

4.1.1.2. During the transition period, under the general auspices of the Trustee, the D.C. Pretrial Services Agency will continue uninterrupted to provide services and support for both juvenile and adult D.C. Code and Federal defendants and offenders to the U.S. District Court for the District of Columbia, the U.S. Court of Appeals for the District of Columbia, the Superior Court for the District of Columbia, and the District of Columbia Court of Appeals. The Director of Pretrial Services may employ such personnel as shall be necessary pursuant to procedures and standards established by the Trustee to facilitate transition to Federal status.

4.1.1.3. Following the transition period, the D.C. Pretrial Services Agency and the D.C. Public Defender Service will be organizationally housed in a part of a new Federal D.C. Offender Supervision, Defender and Courts Services Agency.

4.1.1.4. The D.C. Board of Parole will be terminated after the Trustee establishes a transition agency with the capacity to provide adequate field supervision to adult D.C. offenders on parole, probation or supervised release, and the U.S. Parole Commission is capable of carrying out parole functions for D.C. Code felony offenders. Subject to appropriations, the D.C. Board of Parole's functions and jurisdiction *vis a vis* felon parolees will be assumed by the U.S. Parole Commission. Similarly, its functions and jurisdiction *vis a vis* misdemeanant parolees will be assumed by the D.C. court system. Substantive D.C. law will continue to apply to parole determinations for all D.C. Code offenders. The District of Columbia Superior Court Division of Social Services will continue to provide supervision to D.C. Code juvenile offenders and will assume responsibility for the supervision of misdemeanant parolees.

4.1.1.5. The Trustee will accept employment applications for new offender field supervision positions in the transition agency from persons who are currently employed by the District of Columbia Board of Parole or in offender supervision-related capacities by the District of Columbia Court System. Qualified, experienced personnel will be essential to an effective, timely transition and will receive priority consideration. Applications will be processed in accordance with procedures and standards established by the Trustee to facilitate transition to subsequent Federal law enforcement employment in the successor Offender Supervision, Defender, and Courts Services Agency. Positions will be advertised prior to hiring to assure notice to all interested D.C. agency personnel.

4.1.1.6. During the transition period, the Federal government will transfer funds for the Pretrial Services Agency, the Public Defender Service and the supervision of D.C. offenders to the Trustee. The head of any Federal department or agency may provide the services of any personnel on a reimbursable basis to the Trusteeship to assist in carrying out the Trustee's duties.

4.1.1.7. During the transition period, under the general auspices of the Trustee, the Public Defender Service will continue uninterrupted to provide services to D.C. Code defendants and the D.C. court system. The Director of the Public Defender Service may employ such personnel as shall be necessary pursuant to procedures and standards established by the Trustee to facilitate transition to Federal status.

4.1.1.8. During the transition period, the employees of and funds allocated to the Trustee and the agencies for which the Trustee is responsible shall not be counted against the personnel and budget ceilings imposed on D.C. by the Financial Authority or Congress.

4.1.1.9. The U.S. Marshals Service (USMS) will contract with D.C., at a mutually agreeable rate, to obtain space not needed by D.C. at D.C.'s Correctional Treatment Facility (CTF), to house persons in the custody of the USMS for whom the USMS requires bed space in the D.C. area.

4.1.1.10. Subject to appropriations, the Federal government will provide funds to support the D.C. Board of Parole functions during the one to three year transition period culminating in the termination of the D.C. Board of Parole.

4.1.2. District of Columbia Responsibilities

4.1.2.1. The District of Columbia will maintain responsibility for all D.C. Code juvenile offenders not prosecuted as adults.

4.1.2.2. The District of Columbia will have responsibility for housing and supervising persons charged with and/or convicted of misdemeanor violations in the Superior Court for the District of Columbia, both before and after sentencing.

4.1.2.3. The District of Columbia will continue to house persons charged with felonies under the D.C. Code and persons convicted of felonies under the D.C. Code but not yet sentenced, in the Superior Court for the District of Columbia. To the extent beds are available, D.C. will continue to house persons charged with felonies under the U.S. Code, and persons convicted of felonies under the U.S. Code but not yet sentenced in the U.S. District Court, and D.C. will continue to receive reimbursement, at a mutually negotiated rate, from the Federal government for the costs of housing such persons. "House" and "housing" include subsistence, transportation of persons to and from court appearances, revocation hearings, medical facilities, and the maintenance of necessary prisoner records.

4.1.2.4. The District of Columbia will continue to house persons sentenced by the Superior Court and detained pending a hearing for revocation of parole, probation, or supervised release, and will provide suitable facilities for such hearings. To the extent beds are available, D.C. will house persons sentenced by the U.S. District Court and detained pending a hearing for revocation of parole, probation, or supervised release, will provide suitable facilities for such hearings, and will continue to receive reimbursement by the Federal government at a mutually negotiated rate for the costs of housing such persons and for providing such facilities. "House" and "housing" include subsistence, transportation of persons to and from court appearances, revocation hearings, and medical facilities, and the maintenance of necessary prisoner records.

4.1.2.5. The Trustee will be an independent officer of the D.C. Government and can be removed by the Mayor only with the concurrence of the Attorney General. The Attorney General has authority to remove the Trustee only for misfeasance or malfeasance in office.

4.1.2.6. The Trustee will propose funding requests for offender supervision and services for inclusion in the President's budget for each Fiscal Year of the transition.

4.1.2.7. The Trustee will allocate funds for offender supervision (including adult felon parole and probation) in D.C., including funds for short term improvements, equipment contracts, and salary increases necessary to retain key personnel, maintain and enhance current levels of service, including offender drug testing, and provide for the safety and security of the community.

4.1.2.8. Upon receipt of funds identified by Congress or other entities for Pretrial Services, the Trustee will immediately transfer such funds to the Pretrial Services Agency.

4.1.2.9. Upon receipt of funds identified by Congress or other entities for the D.C. Public Defender Service, the Trustee will immediately transfer such funds to the Public Defender Service.

4.1.2.10. Effectively immediately and in view of the responsibility to be undertaken by the U.S. Parole Commission to carry out the functions of the D.C. Board of Parole pursuant to the parole laws and regulations of D.C., the D.C. Council will not enact legislation that changes or modifies parole laws and regulations as applicable to felony offenders without the concurrence of the Attorney General. D.C. will immediately take steps to modify parole as applicable to misdemeanants to provide for D.C. court supervision of D.C. misdemeanant parolees and the elimination of the D.C. Board of Parole.

4.1.2.11. It is expected that the transition period for these offender, defender and court services will end no sooner than one year but not later than three years after the enactment of the related legislation.

4.1.2.12. The D.C. Corporation Counsel will provide representation for the Trustee and Trustee supervised agencies. (see litigation and liability section)

4.2. Administration of District of Columbia and Federal Prisons

4.2.1. Federal Government Responsibilities

4.2.1.1. The Federal government will take administrative control of the nine parcels of land, collectively located at or in the vicinity of Lorton, Virginia ("the Lorton property"), and other appropriate sites. After the BOP's capacity has been increased through renovation of existing facilities and new construction at the corrections complex in Lorton and other locations selected by BOP, BOP will house felons who were convicted of D.C. Code violations and sentenced to terms of imprisonment. (A recently completed Congressionally mandated study of the D.C. Department of Corrections revealed that most of the institutions at Lorton have exceeded their useful lifespan and need major renovations or demolition.)

4.2.1.2. BOP will conduct a thorough preliminary assessment of the Lorton property to determine its environmental condition, including a study of the contamination on the property and an estimation of the costs associated with bringing the property into compliance with environmental and other applicable regulations. Based on preliminary information gathered pursuant to a review of the environmental conditions of a portion of the Lorton property, BOP could begin planning for renovation and construction immediately; actual physical renovations would not begin until Fiscal Year 1998. The estimated date for the completion of the preliminary environmental assessment process is March 21, 1998.

4.2.1.3. BOP will oversee the operation of community corrections centers in D.C. as necessary to provide an appropriate transition for inmates who are nearing release from Federal prisons, including those convicted of D.C. Code violations. BOP intends to use existing community corrections centers in D.C. to the extent practicable and will work with D.C. officials to identify prospective sites, as needed to establish new community corrections facilities.

4.2.1.4. D.C. Code offenders will be housed together with Federal offenders in facilities operated by BOP in Lorton, Virginia and elsewhere. Every effort will be made to house D.C. felons at facilities as close to D.C. as permitted by inmate program and security needs and BOP population management requirements. D.C. felons will be designated in the same manner as Federal inmates, and ordinarily initially assigned to institutions located within a 500-mile radius of their release residence. BOP anticipates that many of the initial designations for D.C. offenders will be within a significantly closer radius. BOP also will work with D.C. officials to identify sites for possible Federal correctional facility construction within D.C.

4.2.1.5. During the transition period, based upon assurances from D.C. that felons convicted of violating the D.C. Code will, in the future, receive sentences similar to those received by comparable offenders convicted of comparable Federal offenses, BOP will house those sentenced D.C. felons in the custody of the D.C. Department of Corrections as the Director of the BOP deems appropriate in accordance with available capacity. If such a new structure for sentencing under the D.C. Code is in place as of October 1, 2001, BOP will accept D.C. felons sentenced under the new sentencing structure in accordance with the capacity of BOP. By October 1, 2002, and assuming fulfillment of all requisite conditions, BOP will have assumed responsibility for incarcerating all sentenced D.C. felons.

4.2.1.6. BOP will accept employment applications from persons currently employed by the D.C. Department of Corrections for BOP vacancies and will make hiring selections in accordance with existing Federal procedures and standards. Qualified, experienced personnel will receive priority consideration. Positions for new BOP facilities will be advertised prior to hiring to assure notice to all interested D.C. agency personnel.

4.2.1.7. After consultation with the Mayor, representatives of the D.C. Council, the Chair of the Financial Authority, members of the judiciary and others, the Attorney General will select a Corrections Trustee to oversee expenditures of the D.C. Department of Corrections relating to sentenced, incarcerated felons, until BOP assumes responsibility for all incarcerated sentenced D.C. felons.

4.2.1.8. To the extent authorized by law, the Federal government will provide funds for the incarceration of sentenced D.C. felons through the Trustee to the D.C. Department of Corrections. The head of any Federal department or agency may provide on a reimbursable basis the services of any personnel to the Trustee to assist in carrying out the Trustee's duties.

4.2.1.9. Of the Federal funds received by the Trustee, the Trustee will reimburse BOP for those funds identified by Congress to be used for the construction of new facilities and the major renovation of existing facilities. BOP will be responsible and accountable for determining how these funds will be used, including the type, security level, and location of new facilities.

4.2.1.10. During the transition period, the employees of and appropriations allocated to the Trustee and the agencies for which the Trustee is responsible shall not be scored or counted against the personnel and budget ceilings imposed on D.C. by the Financial Authority or Congress.

4.2.2. District of Columbia Responsibilities

4.2.2.1. Offenders convicted of D.C. Code violations will be sentenced pursuant to a new D.C. sentencing system, described below. BOP shall not be required to obligate any funds appropriated for the absorption of D.C. Code felons into the Federal prison system and will have no responsibility to house any persons convicted of felony offenses, if the new sentencing system is not enacted within 24 months of the authorizing legislation's enactment.

4.2.2.2. D.C. will continue to house felons sentenced to terms of imprisonment by the Superior Court for the District of Columbia until such persons have been designated by BOP. To the extent beds are available, D.C. will continue to house felons sentenced to terms of imprisonment by the U.S. District Court until such persons have been designated by BOP and will continue to receive reimbursement by the Federal Government, at a mutually negotiated rate, for costs of housing such persons sentenced by the U.S. District Court.

4.2.2.3. The Trustee will be an independent officer of the D.C. government and can be removed by the Mayor only with the concurrence of the Attorney General. The Attorney General has authority to remove the Trustee only for misfeasance or malfeasance in office.

4.2.2.4. The Trustee will propose funding requests for the incarceration of sentenced D.C. felons, for inclusion in the budget submitted by the President to Congress for each Fiscal Year of the transition.

4.2.2.5. The Trustee will allocate funds to the D.C. Department of Corrections, including such sums as may be appropriated for short term improvements that are necessary for the safety and security of staff, inmates, and the community.

4.2.2.6. The D.C. Department of Corrections will implement the short term improvements in physical security identified in the "District of Columbia Department of Corrections Short-Term Improvements Plan (September, 1996)."

4.2.2.7. Upon receipt of Federal funds identified by Congress for constructing new prisons and making major renovations to existing facilities for the incarceration of D.C. felons, the Trustee will immediately reimburse BOP for such funds.

4.2.2.8. The D.C. Corporation Counsel will provide representation for the Trustee and Trustee supervised agencies. (see litigation and liability section)

4.2.2.9. During the transition, D.C. will transfer custody and control of the property at Lorton, Virginia to the Federal Government, though the D.C. Department of Corrections may continue to house D.C. felons at facilities located at Lorton until such time as BOP absorbs such offenders into the Federal prison system.

4.3. Sentencing. The District of Columbia understands and agrees that the D.C. sentencing system will be changed pursuant to proposed legislation in the following manner:

4.3.1. The D.C. Code will be amended to abolish parole for all persons convicted of D.C. felony offenses committed on or after three years from the enactment of the Federal authorizing legislation.

4.3.2. The D.C. Code will be amended so that good time calculations for all persons convicted of D.C. felony offenses committed on or after three years from the enactment of the Federal authorizing legislation will be made according to the Federal requirements.

4.3.3. Congress will establish a new D.C. Board of Criminal Sentences (the Board) as an independent body within the D.C. Government. All persons convicted of D.C. felonies committed on or after three years from the enactment of the Act will be sentenced according to a determinate sentencing system promulgated by the Board and transmitted by the Board to the D.C. Council no later than 18 months after enactment of the Federal authorizing legislation.

4.3.4. The Board will develop a sentencing system which shall include binding guidelines and may include such amendments or repeals of provisions in the D.C. Code relating to the maximum and minimum prison terms as are necessary to accomplish the purposes of the Act. Ninety days after the Board promulgates and transmits the sentencing system to the D.C. Council, the sentencing system, its guidelines, amendments and repeals will become effective unless disapproved in its entirety by an Act of Council.

4.3.5. The promulgated sentencing system will supersede any inconsistent provision of the D.C. Code.

4.3.6. Provisions of the D.C. Code that do not conform with the new sentencing system will be repealed or amended to conform with the new sentencing system.

4.3.7. D.C. Code Title 33, Section 541 will be amended to adopt certain mandatory penalties necessary to further the Superior Court of the District of Columbia's Drug Intervention Program and effective local law enforcement. The new sentencing system will incorporate these mandatory penalties, thereby excluding local narcotics offenses from the mandate that sentences be similar to those that would be imposed upon comparable offenders in the Federal system.

4.3.8. The Board will not have the authority to provide for capital punishment under any law applicable exclusively in D.C.

4.3.9. The Board will have seven voting members. All the members of the Board shall have knowledge and responsibilities with respect to criminal justice matters. The Attorney General (or the Attorney General's designee) will chair the Board. The other members will include two judges of the Superior Court for the District of Columbia and one representative each of the following entities: the D.C. Council, the Executive Branch of the D.C. Government, the D.C. Public Defender Service, and the U.S. Attorney for the District of Columbia. One representative each of the D.C. Corporation Counsel and BOP will serve as non-voting, ex officio members.

4.3.10. An affirmative vote of at least six Board members will be necessary to promulgate the sentencing system.

4.3.11. In developing the sentencing system, the Board will hold two or more public hearings, review other sentencing guideline system models, consult with sentencing reform experts, and solicit written comments from the public.

4.3.12. If the Board fails to promulgate a sentencing system within 18 months, the Board will terminate, and the Attorney General will develop a sentencing system to be transmitted to the D.C. Council for approval. Ninety days after the Attorney General transmits the sentencing system to the D.C. Council, the sentencing system, its guidelines, amendments, and repeals will become effective, unless an Act of the Council disapproves the system in its entirety.

4.3.13. The Board will have the mandate to ensure that the sentencing system it establishes, among other things:

4.3.13.1. will result in sentences for those convicted of D.C. felony offenses similar to those that would be imposed upon comparable offenders convicted of comparable offenses in the Federal system;

4.3.13.2. will result in sentences that reflect the seriousness of the offense and provide for just punishment, afford adequate deterrence to potential future criminal conduct of the offender and others, and provide the defendant with needed educational or vocational training, medical care, and other correctional treatment;

4.3.13.3. will provide certainty and fairness in meeting the purposes of sentencing, avoiding unwarranted sentencing disparities among similar defendants, while maintaining sufficient flexibility to permit individualized sentences;

4.3.13.4. will take into account the high volume of sentencing proceedings in the D.C. Superior Court as bearing upon the degree of complexity of the sentencing system; and

4.3.13.5. will ensure that the system is neutral as to the race, sex, marital status, ethnic origin, religious affiliation, national origin, creed, socioeconomic status, and sexual orientation of offenders, if not related to the commission of the offense.

4.3.14. As part of the sentencing system, the Board will develop binding guidelines for use in determining the sentence to be imposed upon convicted felons. The guidelines will specify:

4.3.14.1. when to impose a sentence of probation, a fine, or a term of imprisonment and the appropriate amount or length, thereof, as well as intermediate sanctions;

4.3.14.2. when to impose a term of supervised release following imprisonment, and the appropriate length, thereof; and

4.3.14.3. whether multiple sentences to terms of imprisonment should run concurrently or consecutively.

4.3.15. Ninety days after promulgation of the sentencing system, the Board shall terminate. There will be established a successor, Federally-funded agency. The successor agency shall be available to advise the Council regarding sentencing-related matters but will have no powers to revise the D.C. Code. The successor agency will recommend to the Council such changes to the D.C. Code as may be necessary to further the purpose of the Act. The D.C. Council will continue to have authority to enact D.C. Code revisions independent of the recommendations of the successor agency. The successor agency also may recommend to the D.C. Council amendments to the D.C. sentencing guidelines as necessary to achieve the purposes of the Act. Such amendments shall articulate sentencing adjustments or new guidelines subject to maximum sentences or ranges established by the D.C. Council in D.C. Code. Guideline amendments that pertain to established D.C. Code provisions will take effect unless disapproved by an Act of the Council that is in turn affirmed by the Congress. Guideline provisions related to proposed changes in the D.C. Code will only take effect under this procedure if the Code change is first adopted by the Council.

4.3.16. The Superior Court for the District of Columbia, D.C. Department of Corrections, and any other agency will submit information about convicted felons as required by the Board and the U.S. Department of Justice. This would permit an assessment of the extent to which sentences imposed by the Superior Court of the District of Columbia are similar to those imposed for comparable offenders in the Federal system. The results of this assessment would be used by the Board in developing the new sentencing system for D.C.

4.3.17. Four years after the enactment of the new sentencing system, there will be an evaluation to determine the extent to which the sentencing system has succeeded in accomplishing the goals set forth in the Act.

4.4. Liability and Litigation Responsibility and Authority

4.4.1. Federal Government Responsibilities

4.4.1.1. The Federal government will be responsible for the defense of any claim arising from any alleged act or failure to act on the part of the United States, its agencies and personnel, in connection with pretrial, defender, offender supervision, sentencing reform, corrections, probation and parole services, and for any resulting liability, after responsibility for these services has passed to the Federal government at the end of the transition period.

4.4.1.2. The Federal Government's assumption of responsibility for the defense of claims, and any resulting liability, set forth in paragraph 4.4.1.1. above shall include claims arising from any alleged act or failure to act of BOP, its agencies and personnel in connection with the demolition, repair, renovation, or construction of any building, structure, or other improvement of any kind at the Lorton, Virginia property.

4.4.1.3. At the discretion of the Attorney General, the Attorney General may direct any litigation involving the Trustees appointed pursuant to sections 4.1.1.1. and 4.2.1.7. above, pretrial services, offender supervision services, or sentencing reform during the transitional period, and may provide litigation services for the Trustees and the agencies responsible for pretrial services, offender supervision services, and sentencing reform during the transitional period in lieu of representation by D.C. The District shall as it deems appropriate petition the Attorney General for reimbursement for litigation costs and liability arising from actions of the Trustees.

4.4.2. District of Columbia Responsibilities and Liability

4.4.2.1. D.C. will be responsible for the defense of any claim that has arisen or may arise from any act or alleged failure to act by D.C., its agencies or personnel, in connection with D.C.'s pretrial, defender, offender supervision, sentencing reform, corrections, or probation and parole services, and for any resulting liability. D.C. will remain responsible for defending and bearing any liability resulting from any such claim even if responsibility for the pertinent service has passed to the Federal Government. D.C. will also be responsible for the defense of any claim arising from any activity of D.C., its agencies or personnel as a result of any action agreed to in this MOU, and for any resulting liability.

4.4.2.2. D.C. is, and will remain, responsible for the defense of any and all claims described in paragraph 4.4.2.1. above, including the defense of claims arising from any alleged act or failure to act of the Trustees (see sections 4.1.1.1. and 4.1.2.7.). Except as otherwise provided in this memorandum, the D.C. Corporation Counsel will provide litigation services as required to carry out this responsibility.

4.4.2.3. Notwithstanding paragraph 4.4.2.2. above, the Trustees and the agencies responsible for pretrial, defender, offender supervision services, and sentencing reform may choose not to utilize the Corporation Counsel and to engage other litigation services.

4.4.2.4. D.C. shall as it deems appropriate petition the Attorney General for reimbursement for litigation and liability costs arising from actions of the Trustees. Such a petition should include if appropriate documentation that such litigation resulted from actions of the Trustees and/or the extent to which D.C.'s liability may have been enlarged by actions of the Trustees.

4.5. District of Columbia Courts

4.5.1. The D.C. Code and other laws will be amended to terminate budgetary control of the D.C. Government in the finances and administration of the D.C. court system, including the Superior Court of the District of Columbia and the District of Columbia Court of Appeals.

4.5.2. The Joint Committee on Judicial Administration of the D.C. courts will prepare and submit the budget for the D.C. court system, in accordance with section 1105(b) of Title 31 of the U.S.C. Prior to submission to Congress, the budget for the D.C. court system shall be presented in a timely manner to the Mayor and the Council of the District of Columbia in order that they may develop recommendations on the budget to the Office of Management and Budget and the Congress. The budgetary requests of the D.C. courts system will not be subject to revision by the D.C. government or the Executive Branch of the Federal government.

4.5.3. The D.C. court system, through its Executive Office, will be authorized to contract with D.C. agencies, Federal agencies, and other public and private entities, for necessary supplies, equipment, and services.

4.5.4. Expenditures of the D.C. court system will be paid out of funds appropriated for those courts and credited to a Treasury account established for that purpose. Funds received by the D.C. court system will not be part of the funds or budget of D.C.

4.5.5. District involvement in the selection and review of D.C. judges will not be diminished.

5. Economic Development. The District government will:

5.1. Implement timely and efficient zoning, permitting, and licensing processes by the end of FY1998.

5.2. Offer personnel resources and fully cooperate with the Economic Development Corporation (EDC) in its review and evaluation of existing economic development plans, in the development of the EDC's strategic plan, and in subsequent implementation of the plan.

5.3. Give expedited consideration to the EDC's request for land transfers (including transfers from the Redevelopment Land Agency), zoning adjustments (including variances and special exceptions), and building and other permits and licenses for projects and activities as requested by the EDC.

5.4. Support legislation that:

5.4.1. allocates to the EDC 50 percent of the applicable State ceiling on the authority of the District government to issue private activity bonds in each calendar year after 1997 under section 146 of the Internal Revenue Code, and that any portion of the ceiling allocated to the EDC, but not identified within the calendar year allocated for specific projects by the EDC, reverts back to the District;

5.4.2. authorizes the EDC to acquire property in furtherance of its statutory objectives through its limited powers of eminent domain in the name of the District of Columbia; and

5.4.3. provides that all powers, rights, assets, duties, obligations, and liabilities of the EDC will transfer to the District government upon the EDC's dissolution.

6. Infrastructure.

6.1. Secretary of Transportation Responsibilities. The Secretary of Transportation (hereinafter in this section referred to as the Secretary) agrees that:

6.1.1. Beginning on October 1, 1997, the Secretary shall assume responsibility for the funding and oversight of certain National Highway System (NHS) capital projects that have been selected by the District of Columbia in accordance with 6.1.2 and shall assume responsibilities for funding operations and maintenance costs related to the NHS within the District of Columbia (exclusive of police authority and exclusive of funding those NHS routes currently under the jurisdiction of the National Park Service) with funds made available under the National Capital Revitalization and Self-Government Improvement Act of 1997, to be referred to henceforth in this section as the "Act."

6.1.2. The Secretary shall advance NHS projects through the Federal Highway Administration (FHWA) in consultation with the District of Columbia. Projects will be selected by the District of Columbia in accordance with the requirements of Title 23, United States Code, and in particular, the planning requirements of 23 U.S.C. 134 and 135. The Secretary shall fully exercise his current authorities under Title 23 to oversee, approve, and modify these plans and project selections. In reviewing the plans, the Secretary shall consider the District of Columbia Needs Assessment and Strategic Action and Investment Program currently being developed by the FHWA in cooperation with the District of Columbia Department of Public Works. The FHWA shall provide the District of Columbia with technical assistance to improve the planning process.

6.1.3. The Secretary, through the FHWA and in consultation with the District of Columbia, shall award and manage the contracts necessary to advance the NHS projects selected in accordance with sections 6.1.2 and 6.1.4.

6.1.4. Beginning on October 1, 1997, the District of Columbia shall continue to advance those NHS projects approved prior to that date that are not under construction or under a contract for such construction by October 1, 1997, unless the FHWA and the District of Columbia agree to vest responsibility for such project advancement with the FHWA. Such projects that are transferred under this section shall also be governed by the requirements contained in section 6.2.5.

6.1.5. The Secretary, in response to a request by the District of Columbia, may transfer National Capital Infrastructure Funds authorized under the Act and available for capital expenditures and NHS apportioned funds authorized to be transferred under the Act to other Federal-aid highway funding categories, consistent with Title 23, United States Code provisions governing the transfer of NHS funds. In addition, the Secretary must certify that performance measures related to the condition of and congestion on the NHS and any other performance measures, including safety, that may be established by the Secretary of Transportation are met before such transfers may occur.

6.1.6. Funds made available to the Secretary for obligation on NHS projects under this Act shall be administered by FHWA. From time to time as work progresses on a project, payments shall be made by FHWA for the costs of construction, operations, maintenance, and other eligible activities under this Act in accordance with applicable procedures under Title 23, United States Code, or as established by the Secretary.

6.1.7. For fiscal year 1998, the Administration will propose that $108 million be authorized to be appropriated to the National Capital Infrastructure Fund (NCIF) which shall be used for construction, reconstruction, and rehabilitation of the NHS in accordance with 23 U.S.C. 103 (i), including transit capital projects eligible for funding under section 103 (i).

6.1.8. In each of the fiscal years 1998 through 2003, the Secretary shall retain and deposit into the NCIF:

(a) 100 percent of the District of Columbia's apportionment for the NHS;

(b) 100 percent of the apportionments for Interstate Maintenance; and

(c) 75 percent of the apportionment for the Highway Bridge and Replacement for use consistent with 23 U.S.C. 103 (i).

6.1.9. In each of the fiscal years 1998 through 2003, the Administration will propose that $17 million be authorized to be appropriated to fund operations and maintenance of the NHS within the District of Columbia, exclusive of those NHS routes under the jurisdiction and control of the National Park Service.

6.1.10. The Secretary shall be responsible for funding those operations and maintenance activities and costs to the extent funds are appropriated in accordance with 6.1.9, excluding police services (except for those construction zone, incident management and other police activities that are eligible for Federal-aid highway reimbursement under Title 23, United States Code) associated with the management and operations of NHS highways including the following activities: routine maintenance of roadways and rights-of-way, road repair, snow removal, lighting, signage, and those utilities necessary for the NHS operations. Operating expenses for any transit activities shall not be eligible for funding under this Act.

6.1.11. The Secretary shall continue to provide oversight and technical assistance to the District of Columbia for all Federal-aid projects that remain the responsibility of the District of Columbia.

6.1.12. The Secretary, through the FHWA, will enter into any agreements or contracts with any entity to advance, construct, reconstruct, rehabilitate, repair, maintain, or operate the NHS control of the National Park Service, consistent with 23 U.S.C. 103 (I).

6.1.13. The Secretary shall encourage the hiring of local labor by contractors awarded contracts including welfare to work labor, on NHS projects financed under this Act to the maximum extent possible and consistent with federal law.

6.1.14. Unless reauthorized by Congress on, or prior to, September 30, 2003, the Secretary of Transportation's new responsibilities under this Act, other than the oversight of projects for which funding has been previously received through this Act, would cease and no new deposits of Federal funds would be made into the National Capital Infrastructure Fund after September 30, 2003.

6.1.15. The Secretary shall provide the District of Columbia with the technical assistance necessary to reassume its NHS responsibilities by September 30, 2003. The April 1996 findings of FHWA's review of the organizational capacity of the District of Columbia's Department of Public Works shall guide the assistance.

6.2. District of Columbia Responsibilities. The District of Columbia agrees that:

6.2.1. The District of Columbia shall retain its current responsibilities under Title 23, United States Code, for NHS project selection.

6.2.2. The District of Columbia shall continue to be responsible for providing police services on NHS highways (including, but not limited to civil police functions, crime prevention, investigations including traffic and accident investigation, and emergency traffic direction). The District shall continue to own the right-of-way of NHS highways that are located within the District of Columbia.

6.2.3. The District of Columbia will continue to be responsible for all utilities and utility work that are not necessary for operation of the NHS even if such utilities are located within the right-of-way of the NHS.

6.2.4. The District of Columbia shall continue to be responsible for non-NHS projects funded with Federal-aid highway funds. Surface Transportation Program (STP) funds will be made available to the District of Columbia for use on local streets, highways, and roadways (except alleys). This authority does not relieve the District of Columbia of the responsibility for the non-Federal matching share for STP funds. The use of other Federal-aid highway apportioned funds by the District of Columbia, other than as provided herein, also requires a non-Federal matching share.

6.2.5. Beginning on October 1, 1997, the District of Columbia is relieved of the responsibility to provide the non-Federal match for NHS projects that are funded by the Secretary with monies made available through the NCIF for NHS projects under this Act. The relief from providing the non-Federal match shall not include those projects that were approved by FHWA prior to October 1, 1997 for which Federal-aid highway funds have been obligated. The District of Columbia is responsible for providing the non-Federal match, the Federal-aid funds, and any obligation authority for any such projects transferred to the Secretary for project administration, oversight, or contracting.

6.2.6. The District of Columbia shall continue to be responsible for any liability incurred on the basis of the activities of the District of Columbia, its agencies, or personnel as a result of any acts or omissions in carrying out this Act. The United States, its agencies, and personnel will not incur any liability for any such acts or omissions.

6.2.7. The District of Columbia shall cooperate with the FHWA in its technical assistance efforts in order to assure that the District of Columbia can reassume its NHS responsibilities by September 30, 2003. The goal of the effort shall be to satisfy the April 1996 findings of FHWA's review of the organizational capacity of the District of Columbia's Department of Public Works.

7. ***Personal Income Tax Administration*** **The District agrees that:**

7.1. The District and the Executive Branch will agree to develop a mutually acceptable legislative proposal consistent with the intent of Section IV.7.

Appendix One

DEFINITIONS FOR THE PENSIONS SECTION OF THE MOU

"Adoption Date" means the date the Replacement Plan is adopted by the District government or, if later, one year from the date of enactment of legislation, or such later time as the Secretary of the Treasury may prescribe.

"District Government" means, as appropriate, the "District government" as defined by section 305(5) of the District of Columbia Financial Responsibility and Management Assistance Act of 1995 (Pub. L 104-8) or the District of Columbia Retirement Board as defined in section 102(5) of the Reform Act.

"Freeze Date" means the date of introduction of the Revitalization Act.

"Fund" means the District of Columbia Police Officers and Fire Fighters' Retirement Fund, the District of Columbia Teachers' Retirement Fund, and the District of Columbia Judges' Retirement Fund as defined in section 102(10) of the Reform Act.

"Reform Act" means the District of Columbia Retirement Reform Act (Pub. L. 96-122).

"Replacement Plan" means the plan or plans described under Title I of the Revitalization Act.

"Retirement Program" means any of the retirement programs as described in section 102(7) of the Reform Act as in effect on the day before the freeze date.

"Revitalization Act" means the "District of Columbia Revitalization Act of 1997."

"Secretary" means the Secretary of the Treasury or the Secretary's designee.

"Transfer Date" means the date on which the assets and obligations of the Fund are transferred to the Trust.

"Trust" means the District of Columbia Retirement Trust created under Title I of the Revitalization Act.

"Trustee" means the firm designated by the Secretary of the Treasury under Title I of the Revitalization Act.

ENROLLED ORIGINAL

A RESOLUTION

12-116

IN THE COUNCIL OF THE DISTRICT OF COLUMBIA

May 9, 1997

To authorize, on an emergency basis, Acting Chairman Cropp and Councilmember Jarvis to sign, on behalf of the Council, the Memorandum of Understanding on the President's National Capital Revitalization and Self-Government Improvement Plan ("MOU"), with the caveat that the Council remains opposed to any elimination or reduction of the annual Federal payment to the District, and that other major concerns with certain terms and conditions of the MOU shall be transmitted to the signatories of the MOU and to the Congress.

RESOLVED, BY THE COUNCIL OF THE DISTRICT OF COLUMBIA, That this resolution may be cited as the "Memorandum of Understanding on the President's National Capital Revitalization and Self-Government Improvement Plan Emergency Resolution of 1997".

Sec. 2. Except for the concerns set forth in section 3 of this resolution, the Council concurs with the draft Memorandum of Understanding on the President's National Capital Revitalization and Self-Government Improvement Plan ("MOU") dated May 8, 1997. Acting Chairman Linda W. Cropp and Councilmember Charlene Drew Jarvis are each authorized to sign the MOU on behalf of the Council, with the caveat that this resolution shall be referenced in the MOU and transmitted to the other signatories of the MOU and to the Congress.

Sec. 3. It is the sense of the Council that:

(1) The President's National Capital Revitalization and Self-Government Improvement Plan ("President's Proposal") provides a historic opportunity to address the city's financial crisis in a way that begins to address fundamental inequities which have long existed in the relationship between the District of Columbia and the Federal government.

(2) Although the District government under the 1973 Home Rule Act has attempted to perform state functions and to provide state-like services, the District has done so without the revenue base of a state, which has been constrained severely and primarily by the

ENROLLED ORIGINAL

Federal presence or by Congressionally imposed restrictions.

(3) Recognizing the unique status of the District as the National Capital and the financial constraints uniquely applicable to the District, the President has proposed that the Federal government increase its budgetary responsibility for the following very costly District operations which are either state-like functions which virtually no other city in the nation performs, or which are burdens that the Federal government itself created and unfairly transferred to the District government as part of the home rule deal:

(A) The Council strongly supports an increase in the Federal share of Medicaid costs from the current level of 50% to not less than 70% (section V.1 of the MOU), because most cities in the nation do not pay anything directly for Medicaid costs. Because no city currently pays more than 25%, the Council urges consideration of an increased Federal share of Medicaid costs to not less than 75%. The same rationale justifies a similar increase in the Federal share of the Temporary Assistance for Needy Families program in the District. Further, consideration should be given to providing Federal budgetary support for Saint Elizabeths Hospital, because this inpatient mental health facility, which was funded and operated by the Federal government until the last decade, fits into the category of governmental functions that are usually funded and operated by states rather than cities throughout the nation.

(B) The Council also strongly supports Federal reassumption of the unfunded liability that the Federal government alone created in the pension plans for District police officers, firefighters, teachers, and judges (section V.2 of the MOU), and appreciates the MOU's recognition that a significant amount of assets in the pension fund must be left with the District of Columbia to fund the benefits of participants in the District's pension plans and to reduce the District's annual contribution.

(C) The Council supports U.S. Treasury loans of up to $500 million to eliminate the District's accumulated deficit (section V.3 of the MOU); provided, that the existence of any outstanding debt for the Treasury financing obtained pursuant to this proposal shall not by itself cause the existence of a control period under the District of Columbia Financial Responsibility and Management Assistance Act of 1995 (Public Law 104-8). The Council appreciates the MOU's recognition that such financing must not jeopardize the District's ability to receive additional Treasury financing to maintain sufficient intra-year and inter-year liquidity, and that such financing will require an amendment to the Home Rule Act's debt limit to enable the District to obtain additional financing for its future capital needs.

(D)(i) The Council supports the transfer of the budgetary and management responsibility for incarcerating District felons from the District government to the Federal government (section V.4 of the MOU), and the Council supports the transfer of the budgetary responsibility for the District's judiciary to the Federal government (section V.4 of the MOU) and appreciates the MOU's recognition that the courts will remain self-managed and that District involvement in the selection and review of D.C. judges will not be diminished.

However, the Council strongly opposes that, as a prerequisite to such transfers, the Council must endorse significant changes to the District's sentencing system regarding felonies, including the abolition of parole, the establishment of determinate guideline sentencing, and the enactment of new mandatory minimum drug sentences.

(ii) The Council is opposed to this prerequisite, which is set forth in section V.4 of the MOU, because requiring such changes to the District's sentencing system substantially infringes upon the authority of the legislative and judicial branches of the District government and thereby runs counter to the stated purpose of the MOU to "strengthen Home Rule" and "respect the Home Rule Charter", and because requiring changes to the sentencing system is not necessary to provide Federal budgetary and management support to the District's criminal justice system.

(iii) As an alternative to the conditions set forth in the MOU for Federal budgetary and management assistance to the District's criminal justice system, the Council generally supports the Federal establishment of an independent corrections authority, along the lines set forth in the document entitled "Proposal for the Establishment of the District of Columbia Corrections Authority" dated April 11, 1997, which is based on a long-term study and recommendations by the National Council on Crime and Delinquency dated January 31, 1997. This alternative criminal justice proposal would not require the District government to relinquish any of its authority to amend the criminal code nor require the implementation in the District of determinate sentencing, mandatory minimum sentencing, or the abolition of parole. The Council at this time opposes the component of this alternative criminal justice proposal that would transfer responsibility for detained and committed juvenile offenders to a Federal independent corrections authority.

(E) The Council supports the establishment of an economic development corporation ("EDC") (section V.5 of the MOU), which would be capitalized initially with substantial Federal funds and Federal real property assets, and which would have broad authority to spur private development, including the use of substantial Federal tax credits both for hiring District residents and for business loans and investments, the use of tax-exempt private activity and revenue bonds, and limited authority to acquire property by eminent domain in furtherance of its statutory objectives. The Council also strongly supports the MOU's endorsement of amendments to the Home Rule Act to provide the District government with the same legal capacity to finance economic development projects as other jurisdictions. The Council requests increased District representation on the board of directors of the EDC. Also, recognizing the substantial economic benefit to the District and the region of a new and larger convention center in the nation's capital, and recognizing that most of the nation's convention centers have needed external support to develop these facilities, the Council requests Federal assistance to complete the financing of the planned new convention center.

(F) The Council supports the establishment of a National Capital

Infrastructure Fund with substantial Federal seed money in Fiscal Year 1998 (section V.6 of the MOU), which should be available not only for National Highway System projects as proposed by the MOU, but also for other approved Federal aid highway and bridge projects and for local roads in the District. The Council requests that the District be relieved of providing the non-Federal match for all National Highway System and other approved Federal highway and bridge projects. The Council also requests that the District be allowed to retain Federal interstate allocations, previously designated for projects that the District has chosen not to proceed to construct, for other local road maintenance and construction, or for local mass transit purposes in the District. The Council further requests that credit enhancement, project loans, and other advantages of the state infrastructure banks that the Federal Highway Administration is helping states to develop be available to the District out of the Fund, for projects that meet criteria to be jointly developed by the District of Columbia Department of Public Works and the Federal Highway Administration.

(G) The Council supports assistance by the Internal Revenue Service ("IRS") with the local enforcement of and compliance with the District's individual income taxes (section V.7 of the MOU), if requested by the District and at no cost to the District, pursuant to legislation to be developed which is mutually acceptable to both the District government and the Federal government.

(4) The most fundamental inequity that continues to exist in the relationship between the Federal and District governments is not addressed by the President's Proposal, and that is the lack of voting representation of District of Columbia residents in the United States House of Representatives and the United States Senate. This denial of the most basic of democratic rights of District residents will be exacerbated if the Federal government assumes management of certain District government functions, because the District will not be able to participate fully in decisions made at the Congressional level with regard to these functions.

(5) In addition to addressing inequities in the relationship between the District and Federal governments and in the relationship between the District and its surrounding jurisdictions, the primary structural goal of the Council is to increase the accountability of the District government and reinforce the Council's oversight responsibility for improving the delivery of essential and basic public services, for restoring the District's financial solvency, and for revitalizing the local economy. To this end, the Council, working together with the Mayor, the Chief Financial Officer, and the District of Columbia Financial Responsibility and Management Assistance Authority, assumed a leadership role in the effort to enact a balanced budget for Fiscal Year 1998 (section III of the MOU), which is one year earlier than required by the Congressionally approved financial plan for the District (Public Law 104-8).

(6) (A) Although not referenced within the MOU, the most troubling component of the President's Proposal is the proposed elimination of the annual Federal payment to the District of Columbia, the underlying purpose of which is to compensate the District for the costs

associated with the District's unique role as the seat of the Federal government and for the revenues foregone as a result of Federal restrictions on the District's ability to raise revenue.

(B) The elimination of the Federal payment would have a severe negative fiscal impact on the District's cash flow until the accumulated deficit has been financed and other long term cost containment measures have been implemented.

(C) The District relies on the Federal payment to repay debt from the prior fiscal year.

(D) The Federal payment is included as a source of revenue in the calculation of the debt limit established for the District in the Home Rule Charter, and, without the Federal payment, the District's debt service as a percentage of revenues would exceed the current debt limit.

(E) The Federal payment has been made available for debt service and referenced in the security documents, and, if the District does not have the Federal payment, investors may require higher interest rates on future debt obligations.

(F) Federal legislation has not been enacted to remove restrictions on the District's revenue raising capability, particularly the ability to have reciprocal taxation upon income at its source. Federal legislation also has not been enacted along the lines of Congresswoman Norton's District of Columbia Economic Recovery Act, which would provide the jolt that is desperately needed to expand the District's revenue base by reversing the hemorraghing of residents and jobs from the District. Therefore, the provision of an adequate Federal payment to the District is even more important and essential to the financial stability of the District of Columbia.

(G) The Federal payment should be determined outside of the annual Congressional appropriations process and be based on a formula that takes into account the combined value of the following components, as set forth in the Brookings Institution revenue plan for the District of Columbia entitled "The Orphaned Capital" and authored by Carol O'Cleireacain ("Brookings plan"):

(i) A payment in lieu of taxes to compensate the District for the reduction of its tax base by the presence of an extraordinary amount of federally-related tax-exempt property and by the imposition of a building height limit;

(ii) State-type aid in an amount that is comparable to the support received by cities of similar size from their state governments; and

(iii) Compensation for the District's continuing budgetary responsibility for providing state-type services.

(H) If the Federal Payment to the District were calculated on the basis of the formula proposed by the Brookings plan, the District government would be able to afford the local tax relief for residents and businesses also proposed by the Brookings plan, and the Council would enact legislation to put such local tax relief into effect simultaneously with the receipt of such adequate annual Federal payment, as part of a comprehensive effort to restore health and competitiveness to the economy of the nation's capital.

Sec. 4. The Secretary to the Council shall transmit a copy of this resolution, upon its adoption, each to the President of the United States, the Director of the Office of Management and Budget ("OMB"), the Executive Director of the District of Columbia Task Force at OMB, the District of Columbia Delegate to the United States House of Representatives, the Speaker of the United States House of Representatives, the President Pro Tempore of the United States Senate, the chairpersons of the House and Senate committees and subcommittees with budgetary and legislative oversight responsibility for the District of Columbia, the Mayor of the District of Columbia, the Chief Financial Officer of the District of Columbia, and the Chairman of the District of Columbia Financial Responsibility and Management Assistance Authority.

Sec. 5. This resolution shall take effect immediately.

Mr. DAVIS. Today, we will examine a subject that is critical to the short-term and long-term health of the District of Columbia, the creation and retention of jobs and employers.

As is true of any municipality, the ability of the District of Columbia to fund the ongoing and growing needs of its community is dependent upon an expanding tax base. It is this base which can generate the revenues necessary for the city to fulfill its mission.

As a former local elected official, I am keenly aware of just how important it is for a community to be in a competitive position to attract and retain jobs. The tax and regulatory climate in a jurisdiction is critical to decisionmakers who continually review the cost-effectiveness and competitiveness of their business location and its corresponding inventory of jobs. Access to an educated and trained labor supply is also a critical factor.

The flight of jobs and residents from the District to other areas where bottom-line costs can be dramatically improved is well known. This trend can and must be reversed.

Economies are increasingly influenced by knowledge-based industries. Communities must be able to respond to the needs represented by these new and rapidly growing businesses, including access to capital and a sufficient supply of qualified labor prospects. Additionally, the presence of the Federal Government provides enormous opportunities to attract and retain employers, provided any offsetting disincentives are not so profound that they force decisionmakers to consider locations elsewhere.

While I believe that there are measures in the administration's proposal that merit strong consideration, I question whether some of the provisions will achieve the stated goal. Our objective is to provide the District with additional tools to encourage business investment, both downtown and in distressed communities. This must be done through coordinated development that connects the District's businesses and people to the fast-growing Washington region and enables the District to be a vibrant participant in the growth.

I remain troubled by approaches that may seek to socially engineer the outcome. I prefer an approach that identifies opportunities to promote the assets of the community, an approach that presents an attractive tax and regulatory climate. I also prefer an approach that connects the education system to the needs of the business community by ensuring a qualified pool of employment prospects and an approach that stimulates business investment by providing incentives that result in measurable outcomes.

In that way, we can tell the world about the positive educational, cultural, recreational, and entertainment assets that exist in this community and about the community itself.

Today, I look forward to hearing from an outstanding group of witnesses about their thoughts, ideas, criticisms, and overall views regarding the proposed Economic Development Corp., along with the tax and financing measures of the President's plan. Working together, we have the potential to provide both short-term and long-term stability to the District's economy.

I would now yield to Delegate Norton for an opening statement.

[The prepared statement of Hon. Thomas M. Davis follows:]

ONE HUNDRED FIFTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
2157 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515–6143

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CHAIRMAN TOM DAVIS
OPENING STATEMENT
HEARING ON PRESIDENT'S PLAN
DISTRICT OF COLUMBIA SUBCOMMITTEE
MAY 22, 1997

Good morning and welcome. This is the sixth hearing for this Subcommittee as we continue our review of the Administration's National Capital Revitalization and Self-Government Plan. Now that the Administration and the District government have signed a Memorandum of Understanding we can proceed with our Congressional review in an orderly manner.

I know that the signing of the MOU was preceded by hard negotiating on both sides. All involved should be proud of their diligence. As I said from the start, the MOU is not a contract. Any underlying legislative language will not be rubber-stamped by the Congress. The MOU is essentially a first step in a process that will hopefully lead to a bill to be signed by the President. But clearly, you can't get to second base until you touch first base. With the MOU signed this Subcommittee and Congress will move forward as rapidly as possible. But all concerned must realize that the window of opportunity is very narrow, and we have to move ahead promptly or be overtaken by the Congressional calendar. With that in mind I ask unanimous consent that the MOU be made part of the permanent record, along with Council Resolution 12-116.

We are fortunate to have received significant input from the Administration, from representatives of the Executive and Legislative branches of the D. C. Government, from the Financial Control Board leadership, from the private and non-profit sectors of the community, from private citizens and from various experts. Today we will examine a subject that is critical to the short term and long term health of the District of

Columbia, nothing less than the creation and retention of jobs and employers in the District of Columbia.

As is true of any municipality, the ability of the District of Columbia to fund the ongoing and growing needs of its community is dependent upon an expanding economic base. It is this base which can generate the revenues necessary for the City to fulfill its mission.

As a former local government elected official, I am keenly aware of just how important it is for a community to be in a competitive position to attract and retain jobs. The tax and regulatory climate in a jurisdiction is critical to decision makers who continually review the cost-effectiveness and competitiveness of their business location and its corresponding inventory of jobs. Access to an educated and trained labor supply is also a critical factor.

The flight of jobs and residents from the District to other areas where bottom-line costs can be dramatically improved, is well known. This trend can and must be reversed.

Economies are increasingly influenced by knowledge-based industries. Communities must be able to respond to the needs represented by these new and rapidly growing businesses, including access to capital and a sufficient supply of qualified labor prospects. Additionally, the presence of the Federal government provides enormous opportunities to attract and retain employers, provided that any offsetting dis-incentives are not so profound that they force decision makers to consider locations elsewhere.

While I believe that there are measures in the Administration's proposal that merit strong consideration, I question whether some of the provisions will achieve the stated goal. Our objective is to provide the District with additional tools to encourage business investment both downtown and in distressed communities. This must be done through coordinated development that connects the District's businesses and people to the fast-growing Washington region and enables the District to be a vibrant participant in that growth. I remain troubled by approaches to an economic development strategy that may seek to "socially engineer" the outcome. I prefer an approach that identifies opportunities to promote the assets of a community, an approach that presents an attractive tax and regulatory climate, an approach that connects the education system to the needs of the business community by insuring a qualified pool of employment prospects, and an approach that stimulates business investment by providing incentives that result in measurable outcomes. In that way we tell the World about the positive educational, cultural, recreational, and entertainment assets that exist in this community and about the community itself.

Today, I look forward to hearing from an outstanding group of witnesses about their thoughts, ideas, criticisms and overall views regarding the proposed Economic Development Corporation, along with the Tax and

Financing measures of the President's Plan. Working together we have the potential to provide both short term and long term stability to the economy of the District.

Ms. NORTON. Thank you, Mr. Chairman.

My appreciation to Chairman Tom Davis for holding the sixth hearing today on the President's Revitalization Plan for the District of Columbia, this time on the economic development provision. To his credit, Chairman Davis has committed to holding a hearing on each major section of the President's plan. There is some concern at the White House, however, because we must have a bill through both Houses and signed by September 30.

Consideration of the plan now appears to be back on track, following the recent signing of the Memorandum of Understanding by all the parties. The administration is to be commended for its idea of an MOU to buttress the chances for passage of the President's plan by demonstrating that the District is committed to responsible implementation and improved management. It is now up to the Congress to address the very legitimate underlying concerns expressed by Mayor Barry and the Council about the plan itself, as we draw bill language.

The chairman and I share much of that concern. As we have always indicated, it is our intention to address these concerns with vigor and determination, while recognizing the challenge of proceeding so as to assure that we attract the votes necessary for passage.

An Economic Development Corp., for the District, the subject of today's hearing, if given ample time, can help in the work of reviving both the District and its neighborhoods. Downtown revival has a head start, thanks to private business, which is putting up most of the money for arena and the convention center, because the private sector understands the District's very considerable unused economic potential.

I am pleased that a representative from the Philadelphia Industrial Development Corp., Philadelphia's Economic Development Corp., will be testifying today. Philadelphia's skill at inducing its recovery from insolvency is instructive. Philadelphia's revival has been rapid, innovative, solid, and lasting. I look forward not only to hearing about the Philadelphia experience, but also to hearing from city officials, business representatives, and our Federal witnesses.

Thank you, Mr. Chairman.

Mr. DAVIS. Thank you.

Mr. Horn, do you want to make an opening statement?

Mr. HORN. Thank you, Mr. Chairman.

I'm delighted you are holding this series of hearings. It's tremendously important to talk about the infrastructure, the fiscal management, and economic development. And I look forward to hearing how, when that economic development occurs, that it meets the zoning of this city to preserve and not overshadow the historic buildings of the Government.

I would also add that all of the good deeds we might do in authorizing a sound economic development program and bringing around some fiscal reform will be for nought if we do not have a professional, talented, incorruptible public service. If we don't face up to that, all of the rest of this is down a rat hole, and we'll be back where we started with this city.

So I would hope, Mr. Chairman, we will face up to that sometime this year, because otherwise we're kidding ourselves.

Mr. DAVIS. Thank you very much.

Now, I would like to ask our colleague from the Appropriations Subcommittee, Mr. Moran.

Mr. MORAN. Thank you very much, Mr. Chairman.

I share your belief that a strong urban core is essential to the overall health of the entire region. It is heartening to see the importance that the White House and individual Members of Congress have placed on revitalizing the District's economy.

I particularly want to applaud President Clinton for the bold proposals that he has made to pull the District out of its financial morass, and Delegate Norton for her numerous and creative efforts to improve the District. I wanted to make sure she heard that before I said anything else.

Mr. Chairman, I want you to hear this phrase, because I thought this was a good encapsulation. I am concerned that a lot of these proposals, however, may become the fiscal equivalent of Michael Jackson's moonwalking, giving the impression of moving forward while, in fact, it's standing still.

For example, the proposal to reduce Federal taxes for DC residents to 15 percent, I do applaud Ms. Norton for her work on this bill, and I know that she has the very best intentions in mind and is determined to stem the hemorrhaging of DC's population, but I don't believe that individual residents are leaving the District solely because they are overtaxed or even primarily because they are overtaxed.

In fact, the individual tax burden on DC residents is less than that borne by those living in Prince George's County, which is the most popular destination of former DC residents. Reducing the Federal tax burden will make it less expensive to live in the District, and it may help stem the tide, but it is certainly not going to reverse the flow of migration out of the city over the last several decades.

The administration's proposal is also a noble effort to encourage greater investment in the District and to stimulate the District's economy, but this plan also appears to be more suitable for spurring development in a disadvantaged area than rebuilding the District's economy.

The District is a natural magnet for high-paying jobs. It is both the center of Government and the core of one of the wealthiest regions in the country. Rather than trying to create an artificial attraction, as this plan may be perceived as doing, we should instead unleash the District's economic potential by removing the policies that sap its financial strength.

To do so, we have to address and reform the incomprehensible and often punitive DC Tax Code. This is the catalyst that is driving businesses out of the District and into the suburbs. A recent study found that the total tax burden for small businesses in the District of Columbia is at least 25 percent greater than in the next highest jurisdiction in the region.

The corporate income tax rate in the District is 10 percent—9.975 percent—10 percent compared to 6 percent in Virginia and 7 percent in Maryland. A typical information technology company would pay more than $22,000 in income tax in the District. In Virginia, that same firm would pay $13,280. They both have the same Federal income taxes, but in the District they would pay almost twice as much as they would pay in Virginia. And in Maryland, they would pay $18,500.

The DC corporate property tax rate, the corporate property tax rate, is an average of $2.15. That is more than twice what it is in surrounding jurisdictions. Now, the residential rate is $.96, half of what the corporate rate is. But you can't have a corporate property tax rate that is twice as much as other regions and think that businesses are going to act contrary to their own self-interest and move into a district with that kind of a tax structure.

It is not a competitive tax structure. It is a tax structure that penalizes businesses for locating and for staying in the District of Columbia. If DC is to retain the businesses that are now located here and attract new businesses, it has to stop chasing business away.

This will not be done solely through a reduction in Federal taxes or a package of economic stimulants like the White House has proposed. It must be done through a fundamental and complete restructuring of the District's own tax rates.

The Brookings study and all the followup analysis that was conducted by Carol O'Cleireacain provides good recommendations for doing that. It proposes eliminating four taxes on businesses, including the personal property tax rate, the professional license fee, the corporate franchise income tax, and the unincorporated franchise income tax. It also recommends changes to other taxes, including the real property tax.

To make up for the resulting shortfall in revenues, the study proposes changing the relationship between DC and the Federal Government, with the District relieved of many of its current functions that most cities don't have to shoulder alone, such as Medicaid and welfare. Many of those proposals are currently part of the Clinton administration's recovery package, and I would support those.

Carol O'Cleireacain's work has been augmented by Stephen Fuller's work. Steve Fuller is with the Greater Washington Research Center. He has been doing a continuing analysis of the region. Together they make the strongest argument that changes must be made within the District to revitalize the city and to provide true economic development.

Those recommendations are promising, and further study and discussion of them and of others is required if we are to put the District's economy back on the right track. But we have to have more than cosmetic changes or experimental proposals, prized more for their novelty than for their practicality.

With so much local, regional, and national attention now concentrated on the District, we have to seize this opportunity to make meaningful changes that will ensure the future health of America's Capital City.

So I appreciate your having this hearing, Mr. Chairman, and I know that you don't disagree with a lot of what I've said. I certainly respect Mr. Horn's judgment. I wouldn't be surprised if Mr. Horn is not thinking along the same lines.

I would hope that we can put a package together that both Appropriations and the authorizing committee, the principal committee of jurisdiction, knows is going to be a truly constructive and long-term, profound improvement to the District of Columbia economy.

With that, thanks for letting me participate in this, and thanks for all your good work on this.

[The prepared statement of Hon. James P. Moran follows:]

JAMES P. MORAN
8TH DISTRICT OF VIRGINIA

COMMITTEE
ON
APPROPRIATIONS

SUBCOMMITTEE ON DISTRICT OF COLUMBIA
RANKING MINORITY MEMBER
SUBCOMMITTEE ON INTERIOR

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Statement of Representative James P. Moran
On District of Columbia Economic Development
Subcommittee on the District of Columbia
Government Reform and Oversight Committee
May 22, 1997

Mr. Chairman:

I appreciate your having this hearing today and giving me the opportunity to participate. I wanted to attend this hearing because I believe this issue is of particular importance to the District of Columbia and to the region as a whole. The effects of the District of Columbia's current poor financial health spill over the District's boundaries. The full weight of D.C's economic condition falls not only on District residents, but also ripples down to those who live in its surrounding suburban areas and those who live beyond the Capital Beltway.

It is heartening to see the importance the White House and individual Members of Congress have placed on revitalizing the District's economy. I particularly applaud President Clinton for the bold proposals he has made to pull the District out of its financial morass and Delegate Norton for her numerous and creative efforts to improve the District. I am concerned, however, that these approaches will become the fiscal equivalent of Michael Jackson's moonwalking: they will give the impression that the District is moving forward while in fact, it is standing still.

Take for example, the proposals to reduce federal taxes for D.C. residents to 15%. I applaud Ms. Norton for her work on this bill and I know she has the best intentions in mind as she tries to stem the hemorrhaging of D.C. residents. But individual residents are not leaving the District of Columbia solely because they are overtaxed. In fact, the individual tax burden on D.C. residents is less than that borne by those living in Prince Georges County, the most popular destination of former D.C. residents. Reducing the federal tax burden will make it less expensive to live in the District and may help stem the tide, but it will not reverse the past decades of migration.

The Administration's proposal is also a noble effort to encourage greater investment in the District and stimulate the District's economy. But this plan also appears to be more suitable for spurring development in a disadvantaged area than rebuilding the District's economy. The District is a natural magnet for high paying jobs. It is both the center of government and the core of one of the wealthiest regions in the country. Rather than trying to create an artificial attraction, as this plan may be perceived as doing, we should instead unleash the District's economic potential by removing the policies that sap its financial strength.

To do so, we must address and reform the incomprehensible and often punitive D.C. Tax Code. This is the catalyst that is driving business out of the District and into the suburbs. A recent study found that the total tax burden for small businesses in District is at least 25 percent greater than in the next highest jurisdiction in the region. The corporate income tax rate in the District is 9.975 percent, compared to 6 percent in Virginia and 7 percent in Maryland. A typical information technology company would pay $22,078 in income tax in the District. In Virginia, that same firm would pay $13,280, and in Maryland it would pay $18,480. The D.C. corporate property tax rate is $2.15 — more than twice that of surrounding jurisdictions.

This is not a competitive tax structure. It is a tax structure that penalizes businesses for locating and staying in the District. If the District of Columbia is to retain the businesses now located here, and attract new businesses, it must stop chasing business away. This will not be done solely through a reduction in federal taxes or a packages of economic stimulants. It must be done through a fundamental and complete restructuring of the District own tax rates.

The Brookings study and all the follow-up analysis conducted by Carol O'Cleireacain provides some good recommendations. It proposes eliminating four taxes on businesses including the personal property tax, the professional license fee, the corporate franchise income tax, and the unincorporated franchise income tax. It also recommends changes to other taxes, including the real property tax. To make up for the resulting shortfall in revenues, the study proposes changing the relationship between D.C. and the federal government, with the District relieved of many current functions that most cities do not have to shoulder alone, such as Medicare and welfare. Many of these proposals are currently being considered as part of the Clinton Administration's recovery package.

Carol O'Cleireacain's work has been augmented by Stephen Fuller's continuing analysis of the region. Together, they make a strong argument that changes must be made within the District to revitalize the city and provide true economic development. These recommendations are promising, and further study and discussion of them and of others is required if we are to put the District's economy back on the right track. We need more than cosmetic changes, or experimental proposals prized more for their novelty than for their practicality. With so much local, regional, and national attention now concentrated on the District, we should seize this opportunity to make meaningful changes that will ensure the future health of America's capital city.

Thank you again for having this hearing and giving me the opportunity to participate. I look forward to hearing the testimony of our witnesses.

Mr. DAVIS. Mr. Moran, thank you very much. Let me just add that you were mayor of Alexandria. You have a great appreciation for the region and the complexities involved, and you are going to make a very substantial contribution as we move forward in the next 3 weeks to getting this bill ready to go.

I appreciate your comments today and agree with a large part of them.

Ms. NORTON. Since the gentleman chose to attack my tax bill.

Mr. MORAN. You were listening.

Ms. NORTON. I was trying to give you a pass.

Mr. DAVIS. Ms. Norton, we're not having a debate here, but I will allow you to certainly respond, briefly, before we hear from Mr. Barr.

Ms. NORTON. I thank you, Mr. Chairman.

I'm sorry, I didn't hear most of it. We have a serious problem or something that might happen with regard to our supplemental, which is my immediate concern.

I support the President's plan. Let me say that we're quite aware that people don't move to Virginia because they prefer to live there. We understand that they move out of the District.

Mr. MORAN. All right.

Mr. DAVIS. Let me just say, I don't know who the "we" is. Maybe that's your understanding.

Ms. NORTON. We are aware that they move out of the District because of its service problems and because it has the problems of large cities. The purpose of the Federal tax cut is not to lower taxes, it's to give people an incentive for remaining in the District.

It is, as well, sir, an alternative to the commuter tax that you and other Members have unjustly denied the people of the District of Columbia, who subsidize your much more affluent constituency with our services. So you have your nerve attacking us for trying to get what we deserve. We are looking for alternatives. I am certainly willing to put a commuter tax bill in, because that is certainly what we deserve.

We have no representation in the Senate of the United States as you do, and we do not have complete representation here. And yet the residents of the District of Columbia, sir, are second per capita in Federal income taxes. We make no apologies for seeking a reduction in our income taxes, particularly when four territories which have full Home Rule pay no taxes whatsoever.

We need your help, that is what we need from the region.

Thank you, Mr. Chairman.

Mr. DAVIS. Ms. Norton, thank you very much.

Now we are going to hear from Mr. Barr.

Let me just add, I think all of us want to work together on these issues. We have different ideas as to how to get there. We are going to hear the administration's ideas. Regardless of the fact that the administration has a concept, the Federal City Council has a concept, Dr. O'Cleireacain has one, as does Ms. Norton, we're going to sit down and work these issues out. And there is, I think, one goal here, that is, the city's taxes have to be reduced; the regulatory burden has to be reduced.

Mr. Barr, let me ask you to stand. It is the committee's tradition to swear in. If you would just stand and raise your right hand.

[Witness sworn.]

Mr. DAVIS. I would ask unanimous consent that any written statement be made part of the permanent record. Please limit your oral statements to no more than 5 minutes, then we will get right into the questions.

We appreciate your being here today, and most of all, we appreciate the administration being proactive, and coming up with a plan. Anytime you put a plan on the table, somebody's going to have a difference of opinion, but at least we've got something to work from and we have the engagement of the President of the United States. That allows us a lot of possibilities for people to talk about these, and that's what we're about.

So thank you for being here. Proceed.

STATEMENT OF MICHAEL S. BARR, DEPUTY ASSISTANT SECRETARY, COMMUNITY DEVELOPMENT POLICY, U.S. TREASURY

Mr. BARR. Thank you, Mr. Chairman and distinguished Members.

Thank you for the invitation to discuss the President's plan to revitalize our Nation's Capital. I will focus today on one of its key elements, how the President's plan will help spur economic development in the District.

The plan is a first step, not a panacea. The District's government and financial authority will have to continue to do the hard work necessary to create a city where streets are safe, where children enjoy the quality education they deserve, and where every resident has a chance to succeed.

The plan is also not a bailout. The plan will require the District to submit a balanced budget for 1998, and for each year thereafter, to continue to comply with the requirements of the financial authority, and to take a number of specific reform steps in each area of the President's plan.

Last week, the DC City Council and the Mayor took an important first step in signing a Memorandum of Understanding with the administration, committing the District government to fulfill these requirements, including, with respect to economic development, a requirement to implement timely and effective zoning, permitting, and licensing processes by the end of the next fiscal year.

Let me talk briefly about the President's plan overall. First, the President's plan would take on major financial and managerial responsibilities that are beyond DC's current capacity. Second, the Federal Government will invest in the city's transportation infrastructure. Third, the Federal Government will provide technical expertise. And fourth, the plan will spur economic development in the Nation's Capital through new Federal tax incentives and a new Economic Development Corp.

I will be focusing the remainder of this testimony on the economic development component, but I would emphasize that spurring economic growth in the District is not limited to this component of the President's plan. All of the plan's elements, taken as a whole, will help provide the District with a climate more conducive to economic growth.

In-depth assessments of the economic development efforts of the District were undertaken by Treasury and OMB, as well as by private sector organizations, such as the DC Agenda Project. These assessments came to the same conclusion: A key missing link in the Capital's ability to advance economically is a private sector-driven Economic Development Corp. to bring the city together behind an economic development strategy and to push that strategy to completion.

This Economic Development Corp. would provide a focal point for development. Its mission would be to bring together the private sector, civic leaders, and government to develop, market, and promote an economic development strategy for the District; to facilitate longer-term and regional approaches to economic growth; to help develop major projects to revitalize the capital; and to link the District, including its distressed areas, to local and regional growth opportunities.

Under the proposal, the Economic Development Corp. will be governed by a nine-member board of directors. The President would appoint five board members in consultation with the Congress, of which four will be selected from private sector businesses, and one will be selected from community-based organizations. The Mayor, with the approval of the City Council, will appoint an additional member, and there will be three voting ex officio members, one each selected by the President, the Mayor, and the City Council.

This corporation will be run by a CEO and served by a professional staff. The EDC will be given the authority to spur development with Federal tax credits for loans and investments in DC businesses, and to issue project revenue bonds, including tax-exempt private activity bonds. Under the plan, Congress would authorize the capitalization of the development corporation, with an initial investment of $50 million in fiscal year 1998.

The EDC will also have a number of other important powers, including the power of eminent domain and the ability to seek expedited consideration by the District government of necessary permits, requests for land transfers, and the like.

Let me spend a few minutes on the Federal tax incentives. The President's plan provides for $250 million in Federal tax incentives to encourage business investment in the District and to foster job growth for District residents. A DC capital credit and new private activity bond would flow through the EDC to businesses. A new DC jobs credit and small business expensing would be available directly to DC businesses.

Taken together, these Federal incentives are designed to spur job creation and economic growth across the full range of sectors, from retail to biomedical, and across the full range of jobs, from entry level to high tech jobs. Prudently used, these tax incentives could leverage over $1 billion in private sector investment in DC businesses.

Let me also say that we are very encouraged that Speaker Gingrich and Senate Majority Leader Lott have agreed to seek to include in balanced budget legislation the administration's proposals for tax incentives designed to spur economic growth in DC.

Let me tell you a little bit more detail about each of these four incentives: The DC capital credit. Under the plan, the EDC would be authorized to allocate $95 million in Federal tax credits for investors in or lenders to DC businesses; these tax credits would be worth up to 25 percent of the amount invested or loaned. This incentive would be available for businesses located throughout the District.

Private activity bonds. The plan provides for the development corporation to issue a new category of tax-exempt, private activity bonds to finance commercial and retail development projects in areas of the District with poverty rates of 15 percent or more. Some 45 percent of the District's population and 37 percent of its land area are included in such areas.

Third, a DC jobs tax credit. The plan provides for a DC jobs credit, a 40 percent tax credit on the first $10,000 of eligible wages in the first year of employment. The credit would be available to businesses that hire DC residents earning up to $28,500 a year, who live in the census tracts I have described, in areas with 15 percent poverty or greater.

Over the next 5 years, 78,000 workers could be expected to benefit from higher wages or new jobs because of this DC jobs credit. It will help create jobs for DC residents, increase the tax base, reduce dependency on public assistance, and lower the costs of labor to the full range of DC firms.

Finally, additional small business expensing will be made available. These tax deductions will be able to encourage the creation or expansion of small businesses in economically distressed neighborhoods of the District.

Mr. Chairman, that concludes my description of the economic development component of the President's plan. I would be happy to take any questions you might have.

[The prepared statement of Mr. Barr follows:]

EMBARGOED UNTIL 9:30 A.M. EDT
Text as Prepared for Delivery
May 22, 1997

TREASURY DEPUTY ASSISTANT SECRETARY FOR
COMMUNITY DEVELOPMENT POLICY MICHAEL S. BARR
HOUSE GOVERNMENT REFORM AND OVERSIGHT SUBCOMMITTEE
ON THE DISTRICT OF COLUMBIA

Mr. Chairman, Members of the Committee, thank you for the invitation to discuss the President's Plan to revitalize our Nation's Capital. I will briefly summarize the President's plan and then focus on one of its key elements -- how the President's plan will help spur economic development in the District of Columbia. After I conclude my remarks, I would be happy to answer any questions that you may have.

OVERVIEW

As you know too well, our Nation's Capital faces not only structural financial problems, but serious obstacles to providing the most basic services to its residents. The President has presented a plan to assume a number of responsibilities normally performed by states, in order to put our capital city on firmer financial ground and its prospects for success.

The plan is a first step, not a panacea. The District's government and Financial Authority will have to continue to do the hard work necessary to create a City where streets are safe, where children enjoy the quality education they deserve, where every resident has the chance to earn a decent living -- and where the City's government spends within its means.

Through the plan, the Federal government will assume over $4 billion of D.C.'s costs over the next five years, and will invest well over $1 billion in the District for economic development, transportation, criminal justice improvements, and tax collection. The plan would also end the annual $660 million Federal payment.

The plan is not a "bailout." All Federal assistance will be conditioned on the District taking specific steps to improve its budget and management. The plan will require the District to submit a balanced budget for 1998 and for each year thereafter, to continue to comply with the requirements of the Financial Responsibility and Management Assistance Act, and to take a number of specific reform steps in each area of the President's plan. Last week, the Council of the District of Columbia and the Mayor took an important first step in signing a Memorandum of Understanding with the Office of Management and Budget committing the District government to fulfill these requirements, including a requirement to implement timely and efficient zoning, permitting, and licensing processes by the end of FY 1998.

ELEMENTS OF THE PRESIDENT'S PLAN

The President's plan would help the District through four main elements:

First, under the plan, the federal government will take on major financial and managerial responsibilities that are beyond the financial capacity of the District and that are normally assumed by states. The Federal share of the District's Medicaid costs will increase. The Federal government will assume responsibility for the vast majority of the District's existing pension liabilities. The Federal government will take on responsibility for housing D.C. felons, offender supervision and services, prison construction, and funding (but not administering) District Courts. The U.S. Treasury will structure loans to assist the City in appropriately addressing its accumulated deficit.

Second, the Federal government will invest in improving the City's transportation infrastructure. It will take responsibility for the funding and oversight of certain National Highway System (NHS) capital projects -- including roads, bridges, and transit -- and NHS operations and maintenance projects in consultation with the District. A National Capital Infrastructure Fund (NCIF) for road, bridge, and transit projects will be established in FY1998 and continue through the end of FY 2003.

Third, the Federal government will provide technical expertise to help the city government become more effective in such areas as income tax collection, education and training, housing, transportation, and health care delivery.

Fourth, the plan will spur economic development in the Nation's Capital through new federal tax incentives and a new Economic Development Corporation -- or EDC. The remainder of my testimony will focus on this economic development component. But let me underscore that spurring economic investment and opportunity in the District is not limited to the economic development portion of the plan. All of the plan's elements, taken as a whole, will provide the District with a climate conducive to economic growth -- if they are combined with the continued efforts of District residents, the District government and Financial Authority to realize the fiscal sustainability, high quality services, good schools and safe streets upon which growth depends.

ECONOMIC DEVELOPMENT PLAN OVERVIEW

Drawing on the best practices of states and local communities throughout the country and extensive discussions with the District's business and community leaders, the Administration has proposed several new tools for the District of Columbia to grow its economy and provide opportunities for its citizens by promoting private-sector investment and jobs. These tools include an Economic Development Corporation (EDC) which is designed to facilitate business expansion, and widely available tax provisions to ensure that the District's residents as well as its businesses have opportunities to participate in this expansion.

Economic Development Corporation

Central to the President's plan for the District's economic revitalization will be a new District of Columbia Economic Development Corporation, or EDC, whose mission, governance, powers and resources reflect both "best practices" nationally and the unique circumstances of the District. In cities and states throughout the nation business expansion is often facilitated by groupings of private and public economic development entities whose responsibilities range from the management of large-scale redevelopment projects to encouraging entrepreneurship in low-income communities. Successful economic development efforts, whether in places like Cleveland, Ohio or Tupelo, Mississippi, depend on the efforts of many entities working cooperatively to perform the tasks essential to promote their City's economic future.

In-depth assessments of the economic development efforts of the District of Columbia were undertaken by Treasury and OMB, as well as by private sector organizations such as the DC Agenda Project. These assessments came to the same conclusion: A key missing link in the Capital's ability to advance economically is private-sector driven economic development corporation to bring the city together behind an economic development strategy and to push that strategy to completion.

The EDC would provide a focal point for development. The EDC's mission would be to bring together the private sector, civic leaders and government to develop, market, and promote an economic development strategy for the District, facilitate longer-term and regional approaches to economic growth, help develop major projects to revitalize our Capital, and link the District, including its economically distressed areas, to local and regional growth opportunities.

The EDC created by the plan will provide the District with the type of organizational structure that other state and local governments have used effectively to stimulate economic growth in their communities. Development corporations, by bringing together the private sector, government, and civic leaders, can often overcome barriers to development that no single private sector firm could overcome on its own. For example, while a large retail business may be economically viable in a neighborhood if customers are drawn to the area by the presence of numerous other retailers, no one firm may be willing to make the first decision to locate there, in the absence of decisions by enough other firms. By bringing numerous interested parties together, development corporations can help overcome such market failures.

This package of federal tax incentives and the new Economic Development Corporation are designed to respond to the unique economic situation of the District of Columbia, while drawing on successful models around the country. Many states, including Virginia and Maryland, provide an array of financing options, targeted tax incentives, loans, training, and other services to retain and attract businesses. The EDC was modeled on best practices from economic development corporations elsewhere in the nation, including the Baltimore Development Corporation, the Boston Redevelopment Authority, the Erie County Industrial Development Agency, the Kansas City

Economic Development Authority, and the Philadelphia Industrial Development Corporation.

What these entities have in common is an ability to draw together the disparate interests in a community, lower barriers to development, and spur growth. They are governed by boards that can focus on long-term economic development strategy, and that represent the broader business and civic community. They use a variety of tools, including revolving loan funds, private activity bonds, eminent domain, and targeted tax incentives to catalyze economic growth. Finally, the experience of other development organizations suggests that in fulfilling the EDC's challenging missions, the EDC must work carefully to build experience and capacity over time.

EDC Mission. Building on work done by a number of private sector District groups, the EDC will develop an economic development plan, help implement large-scale development projects, support efforts to create jobs and business opportunities in the District, and connect District development to regional growth. We expect that the EDC will have five core missions:

Strategic Planning -- provide technical support and a forum for hard-nosed thinking about the District's longer-term economic opportunities and options;

Project Development -- participate with developers and investors in the planning and management of large-scale development projects that present significant economic growth opportunities for the city;

Business Promotion -- market the District and its region as potential sites for business investment, tourism, and other approaches to promote economic growth;

Link Distressed Communities -- facilitate linkages with D.C. residents, community based organizations and other entities, such as employment intermediaries and micro-loan programs, that can connect the residents of the District's economically distressed communities to economic opportunities available within the city and in the region, and;

Regional Action -- work with economic development organizations in surrounding suburban jurisdictions to implement win-win regional efforts, so that the entire region's economy benefits from cooperative regional economic development strategies.

EDC Structure. Under the proposal, the District of Columbia EDC will be governed by a nine member Board of Directors. The President will appoint five of the Board members in consultation with Congress, of which four will be selected from private sector businesses, and one will be selected from community based organizations. The Mayor, with the approval of the City Council, will appoint an additional member. There will be three voting, ex officio members, one each selected by the President, the Mayor, and the City Council respectively. The EDC will be run by a Chief Executive Officer and served by a professional staff.

Federal Capitalization and Tax Incentives. As described more fully below, the EDC will be given the authority to spur development with federal tax credits for loans and investments in D.C.

businesses, and to issue project revenue bonds, including new tax-exempt private activity bonds. Under the plan, Congress would capitalize the EDC with an investment of $50 million in FY 1998. The EDC would use these funds for planning, project development, investments, operating costs, and other statutory purposes. Of this amount, $20 million would be made available on a competitive basis to non-profit entities in the District for job creation. The EDC would also be required to conduct an independent evaluation of the efficacy of the tax incentives provided under this proposal, to ensure the effective use of federal tax dollars.

Expedited Approvals. The EDC will also have a number of other important powers, including eminent domain, the ability to seek expedited review by the District government of necessary permits, requests for land transfers, and the like. As part of the MOU with the Federal government, the District government has committed to achieve reforms with respect to permitting, licensing, and zoning by the end of FY 1998 and to cooperate fully with the EDC.

New Federal Tax Incentives for Jobs and Growth

The President's plan provides for $250 million in federal tax incentives to encourage business investment in the District and to foster job growth for District residents. A D.C. Capital Credit and new Private Activity Bonds will flow through the EDC to businesses. A new D.C. Jobs Credit and Additional Small Business Expensing will be available directly to D.C. businesses. Prudently used, these tax incentives could leverage over $1 billion in private sector investment in D.C. businesses. We are encouraged that Speaker Gingrich and Senate Majority Leader Lott have agreed to seek to include in balanced budget legislation the Administration's proposals for tax incentives designed to spur economic growth in the District of Columbia.

D.C. Capital Credit. The plan will authorize the EDC to allocate $95 million in federal tax credits for investors in, or lenders to, District businesses, for up to 25 percent of the amount invested or loaned. This incentive would be available for business investment throughout the District. Investors and lenders will compete for the credits, which will reduce the costs of capital for economic development projects throughout the District. The EDC will evaluate the long-term potential for the investment or loan to generate jobs for D.C. residents and to improve the D.C. tax base. The EDC will be given the authority to allocate the tax credits for loans and equity investments in much the same way that state economic development agencies and state housing agencies allocate tax-exempt private activity bonds and the low income housing tax credit. As a recent GAO study of the low income housing tax credit demonstrates, allocation of a federal tax credit by a state agency allows the credit to be efficiently targeted to meet local priorities within the broad federal policy goals established for the incentive.

Private Activity Bonds. The plan provides for the new EDC to issue a new category of tax-exempt private activity bonds to finance commercial and retail development projects in the District. Tax-exempt financing is traditionally used by state and local governments as a way to tap the public bond market as a source of capital. The new bond categories are tailored to the economic development needs of the District. The proceeds of the economic development bonds must be used to finance projects located in census tracts with poverty rates of 15 percent or more. Some 45 percent of the District's population and 37 percent of its land area are included in such census tracts.

Businesses that benefit from this lower cost borrowing must employ a workforce at least 35 percent of which is made up of District residents. The bonds would be subject to the annual $150 million cap on the issuance of private activity bonds for the District of Columbia, half of which is directly allocated to the EDC under this plan. Although the bonds would be issued by the EDC, repayment would be secured by the revenues from the private businesses funded.

D.C. Jobs Tax Credit. The Plan provides for a D.C. Jobs Tax Credit, a 40 percent tax credit on the first $10,000 of eligible wages in the first year of employment, including employer-provided health care, child care, and educational assistance. The D.C. Jobs Credit would be available to District businesses that hire D.C. residents earning up to $28,500 a year who live in areas with 15 percent poverty or more, and other targeted D.C. residents. Over the next five years, tens of thousands of workers could benefit from higher wages or new jobs because of the D.C. Jobs Credit. The Jobs Credit will help expand private sector employment of D.C. residents, increase the tax base, reduce dependency on public assistance, and lower the costs of labor to D.C. firms.

Additional Small Business Expensing. The Plan provides for greater tax deductions to encourage the creation or expansion of small businesses in economically distressed neighborhoods, those with poverty rates of 15 percent or more. Eligible small businesses will be permitted to deduct (rather than capitalize over time) up to $20,000 in additional costs per year for certain equipment. This incentive will give a boost to small businesses, help revitalize D.C.'s neighborhoods, and create jobs for D.C. residents.

CONCLUSION

Mr. Chairman, that concludes my description of the economic development component of the President's revitalization plan for the District.

The President's plan is ambitious. It will benefit the City, the region, and the Nation.

It benefits District residents by reducing the D.C. government's financial burdens, improving the delivery of City services, and investing in criminal justice, economic development, and transportation.

It benefits the region by strengthening the District's criminal justice system; by improving key components of the regional transportation infrastructure; and by fostering the City's economic recovery -- according to Professor Steve Fuller of George Mason University, for every dollar of additional economic activity in the District, its suburbs pick up $1.50 in new growth.

It benefits the Nation because it will help build a Capital city of which all Americans can be proud.

Mr. Chairman, that concludes my testimony.

Mr. DAVIS. Mr. Barr, thank you. Thank you very much.

I'm going to start the questioning with my colleague from California, Mr. Horn.

Mr. HORN. Thank you, Mr. Chairman.

I mentioned in my opening remarks the problems of zoning. Would the jurisdiction of this corporation intrude in any way on assuring that the great vistas of this Capital and the great historic buildings are not intruded upon by a developer that wants to make a fast buck and suddenly build a 100-story tower here, or something? How are we handling that?

Mr. BARR. Under the proposal, Mr. Horn, the existing mechanisms for zoning and for dealing with historic preservation are kept intact. There's a provision that permits the corporation to seek expedited review, but that does not change any of the substantive standards.

Mr. HORN. I'll tell you what worries me. I saw what happened at L'Enfant Plaza. They had the beautiful HUD building there, and suddenly everything else is crammed around it. And it does block access and views of the Capitol from the Virginia side, depending on where you are. And it just seems to me we don't need fast buck artists wrecking the historic nature of this city.

Mr. BARR. I would fully agree.

Mr. HORN. So I hope we have an absolute veto on some of that, if they get out of hand.

Mr. BARR. The existing mechanisms would all remain in place.

Mr. HORN. Well, apparently it didn't work at L'Enfant Plaza, and I worry about that, and we'll pursue that more later.

I think one of the key questions here is, would it be useful and appropriate for the EDC to take over the economic development operations of the District's government and the RLA? And the point is, obviously, that the District's efforts have not succeeded, and consideration should therefore be given to at least including them in the EDC.

It seems to me you would get more bang for the buck by combining these operations or getting rid of the other operations. You certainly don't want these agencies competing with each other and not cooperating. So let's have your thinking in that area.

Mr. BARR. Our thinking is, we did take a look at existing development organizations in the course of coming up with a plan for the Economic Development Corp. What we found is that, in most areas of the country where Economic Development Corp.'s are successful, there's a division of labor between that entity and other entities operating in the area. We would expect a similar type of division of labor in this instance.

I think the development corporation is going to have a lot on its hands as it begins to perform its five core missions. So one might be cautious about giving it other duties, as well.

Mr. HORN. I happened to, in a past incarnation, be one of the several founders of the Long Beach, CA, Economic Development Corp. What we ran into with that corporation—and, granted, this is much more of a government one than that one was—was that we were sued right and left by people that didn't want us to change, run over, clean up what was, in essence, a slum landlord situation, where small, little firms did exist and violated every single city zoning code I could think of.

And we were tied up in court forever. And finally, we folded the whole works into the city government. Unfortunately, the city agreed that they wouldn't do anything by eminent domain; they would simply wait them out. Well, that could take 80 years in some of those. When you look at what has not even been turned around since the riots of the late 1960's, you can see some of the problems that are here, obviously, under our nose.

How do you suggest we deal with that?

Mr. BARR. I think that you are correct, that is an important area of concern. The way that that is treated in the proposal is that there are limitations on the time in which suit may be brought against this entity, which is somewhat of a check against the kind of problems you have described.

Mr. HORN. So you are saying it is not a complete "Tort Lawyers Relief Act of 1997."

Mr. BARR. I do not believe so, sir, no.

Mr. HORN. It seems to me we have to think through just how much do we permit that kind of nonsense from going on, where they are trying to blackmail the city, blackmail the people, and all the rest of it. So I think we need to ask a few more questions on that.

Thank you, Mr. Chairman. Those are my main concerns.

Mr. DAVIS. Thank you.

I now recognize our ranking member, Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman.

When the administration released its document, March 11, included in the package along with all the other items was a one-time, $50-million investment. We looked at the recently signed MOU, and this language is found there: "The administration will seek an authorization of appropriations in fiscal year 1998 to carry out economic development in the District of Columbia."

Why is there no mention of the $50-million investment which was supposed to already be in the package? Is it in the package? Is the $50 million in the package or not?

Mr. BARR. Yes, it is.

Ms. NORTON. What is the authorization about? That means when the package is authorized, it ought to be authorized?

Mr. BARR. That's correct. I don't have the precise MOU language in front of me, but in the legislative bill that we would propose, there is a $50-million authorization for the development corporation in fiscal year 1998. And that is what we would be seeking.

Ms. NORTON. Now, the major part of this package consists of tax credits. Virtually all of it is tax credits, $250 million.

Mr. BARR. Right.

Ms. NORTON. The experience of the District in the use of tax credits has produced only limited results. And that's kind. That's a kind way to state what has happened. How does what you are offering differ, and why do you believe it will produce better results than has been the case with such tax credits in the past, in the city?

Mr. BARR. We believe that there are two main reasons. One is that the tax credits that we have developed are part of a broader plan to revitalize the District. I think the evidence is that tax credits, on their own, without a broader plan around them, are usually not enough. And the broader plan is really one reason why we are more confident in that.

The second is that, in developing these incentives, we've really tried to learn the lessons of other tax incentives, both at the Federal level and at the State and local level around the country, that have been used. And the DC capital credit that we have proposed is a quite flexible tool that we think we will be able to use much more rapidly, for instance, than bond financing generally is. And the labor incentive really builds on the lessons learned from prior incentives and from the work opportunity tax credit.

Ms. NORTON. The District got the least favored treatment from the administration when it came forward with its empowerment zones. I think we were 1 of 66 things called "enterprise communities," which was consolation prizes to people who essentially got no money, like Baltimore and Detroit, who got $100 million.

I wish you would compare what was in the empowerment zone, what our neighboring city, Baltimore, what Detroit, what a number of other cities got, I wish you would compare the elements of those empowerment zone packages to this package.

Mr. BARR. The incentives that are on the table in this package are quite robust. I would have to go city by city to compare how they are used, because there is flexibility in the empowerment zone situation. But here $250 million in tax incentives and $50 million in grants are put on the table for the city. Depending on how those are used, those would be significant leverage in comparison with similar tax incentives offered in the empowerment zone program.

Ms. NORTON. My question was to compare them.

Mr. BARR. Under the empowerment zone proposal, there is a tax-exempt bond finance provision, with certain limitations on the use of tax-exempt bond financing that are not present here. So in the bond finance area, this is a more flexible package.

In the area of wage incentives, the empowerment zone wage incentives are available not just for hiring but for existing jobs. This, in the DC context, is a hiring incentive. In the empowerment zone context, that wage incentive is limited to a small area, whereas here it covers 37 percent of the District.

The additional allocated tax credit for capital investment is not available in the empowerment zones but is available in the District.

Ms. NORTON. Mr. Barr, just let me say, I want to say once again how well thought out I think the administration's plan was. And I say that as someone who has some clear disagreements with sections of it. But I do want to say for the record that the District didn't expect anything like the President's plan.

And for all of the fuss that was heard, which kind of megaphoned some of the problems that all of us had with it—and I must say, not to the great benefit of our being able to get it through here—the fact is, the District did not expect an empowerment zone, and I'm not sure the District expected much beyond trying to do something with pensions.

Not that that would have begun to do it, but the fact is that what the administration deserves credit for is trying to think through ahead of time what it would take, comprehensively, for a total revival of the District.

It's the only thing that I have seen from the District or from the Congress that is truly visionary, that says, what would you need? And then they go through the big ones: Medicaid, no city can pay that. Pensions, ours not theirs, can't possibly revive without that. Prisons, no city would be left standing. Those were on the wish list. And then, of course, there are four or five other elements of this plan.

I do not know that all of the elements of this plan will survive, very frankly, particularly since we are pressing, as well, for the Federal payment. I do know this, there is no free lunch up here. The District may get some Federal payment, but we're going to have a hard time piling on, as we would like to. And the kind of criticism you heard from Mr. Moran, much of which was valid, you will find all across the Congress.

The Economic Development Corp. was perhaps the least expected. It is a very creative, good way to try to move the District. We have problems with it, because it does not have, even as the Council has been able to move the numbers forward, a majority of appointments from DC.

I have to tell you that I do not know what the fate of the Economic Development Corp. is over here. It has been subject to a lot of criticism in the House and in the Senate, even though these corporations generally enjoy support from Republicans and Democrats. I do not know what the fate is. I do not know whether this is the highest and best use for economic development in the District.

Now, I do know that, if it done right, at least over a period of years you would begin to see some improvement. And the reason I think it has particular potential is because the private sector has already begun to do what is necessary. They are the leaders. And when you have an Economic Development Corp. coming in behind a private sector willing to take its own risks, it seems to me you do have something going for you.

So I'm going to certainly try my best, not only because I think it is a good idea, but because, for all of the whipping that the administration took over something that had almost nothing to do with this bill—which is, was the District prepared to do what it's supposed to do, essentially—for all it took, the fact is that the bill does look at every part of the District where there is weakness, sits down and tries to figure it out.

It does not always come up with something all of us can agree upon, but I really want to commend the approach that the administration took, the big picture, then saying, what is doable, what can pass, what can we do to buttress what can pass, which is what the MOU is about. It wasn't supposed to start a big fight. It was simply to wave a piece of paper at the bulls up here and say, that's all right, we've got something.

The approach is to be commended, and I hope you all will forgive me and the chairman as we go at parts of this plan which we think must be revised. And I hope that we will see the kind of flexibility, on the part of the administration, that we saw when we began.

The rigidity that got built in when you were negotiating with the Council was very unfortunate. Some of what they did is what elected officials do. The response of the administration to suddenly become very inflexible did harm to the bill up here, got people who wouldn't have been for us anyway, being more against us.

So I hope that the kind of flexibility that you all have always showed, except for that period, and the visionary way you have approached this, and the very pragmatic approach that is also built into the way you have gone at this, and all of that, will come again on the table, so that we can get this through in short order. We recognize that the time is passing very quickly.

Mr. DAVIS. Thank you. The gentlelady's time has expired.

Let me just ask a few questions. Mr. Barr, this is a philosophical question: If you are going to use money for breaks in taxation for the city, it looks like the administration's proposal is—you've got an Economic Development Corp—we're going to use these and sprinkle these to certain companies that meet a certain criteria.

Aren't you better off reducing the regulatory burden on everybody, tax and regulatory burden on everybody, and letting the market pick winners and losers, as opposed to letting Government pick winners and losers, which is basically what you're doing when you allow one group to get a tax break and maybe another group that's here won't qualify?

Mr. BARR. That's an excellent question. I think our belief is that the private sector is the engine of growth in any community.

Yes, it's important to reduce regulatory and other burdens. What we really tried to focus on was, what additional targeted tools could the Federal Government bring to the table to address particular aspects of economic development that were necessary for the District, that were missing in the District, and to focus on, for example, parts of the labor market that do not function as well. The low end of the labor market is much less efficient right now than the other end of the labor market.

So we really believed, given the limited resources available, that we should focus in a targeted way on the additional elements that the Federal Government could bring to the table. The other elements, I think you're right, the DC government really needs to look at its current regulatory and tax structures.

Mr. DAVIS. Do you agree that those structures need to be reduced, in addition to what you are providing?

Mr. BARR. I agree that the District should take a careful look at its existing regulatory and tax structures. We would be happy to provide any technical assistance to you or to them in doing so.

Mr. DAVIS. I mean, it seems evident to me, in talking to people who do and used to do business in the city, that it's expensive to do business in the District. Rents and parking are higher. When you add to that a tax and regulatory burden in the city that you don't find in surrounding areas, you have to ask why would anybody want to be in the city.

If you can bring those tax and regulatory burdens down, it makes it a little more palatable for everybody. Then you could fashion special tax breaks, as Maryland and Virginia employ. I'm not a great fan of them but everybody's doing it, so it's the kind of issue where to stay competitive tax breaks become bidding wars for individual industries.

So I think I want to look at it in that vein. Unless you reduce the tax and regulatory burden for everybody across the board, I think that the sprinkling of these special benefits to a given company are just not going to be as successful as they might in combination with bringing taxes and regulatory burdens down. We will be working with you as we draft this, to try to allow the city's tax base to expand.

What about the residential tax base? What's the vision for having that expand at this point? Ms. Norton's bill at least focuses on the fact that it's a high tax burden for residents. You can argue, well, it's a city; the Federal tax burden is even across the lot, and the city has an artificially high burden.

But coupled with poor service levels, that high tax burden helps to move the middle class out of the city. This proposal doesn't really address the residential component, except in trying to focus on service levels by relieving the city of some services they are currently providing, which would free up funds to others. Is that fair?

Mr. BARR. Representative Davis, I think you have the last point exactly on, which is that the plan really does try and improve the District government's ability to provide the basic services that will make the city attractive for the middle class. The city needs to improve its provision of public services, improve public safety, better the schools. And I think, until it does that, the middle class will continue to leave.

Mr. DAVIS. I really appreciate the administration coming up with a plan, and having the guts to put it on the table. I mean, people have been talking about these things for years in a theoretical sense. A lot of pieces make a lot of sense.

I think we want to add some value to that along the lines I've talked about and Mr. Moran has talked about, Ms. Norton, Mr. Horn, and others. But we look forward to the dialog and working with you and just appreciate the attitude that we're getting from the President in addressing these issues. Hopefully, in short order, we can move this at least through the House, and move on from there.

I am going to now yield—we have three other panels—to my friend from Virginia, Mr. Moran.

Mr. MORAN. Thank you very much, friend and chairman.

First of all, let me make—I am not surprised. I am very glad to see that we are thinking exactly along the same lines here. It will help to have both authorizing and appropriations thinking in the same direction.

Mr. Horn, let me make a comment about the very important point that you made with regard to zoning. All of us want to protect both the visual clearance of all of our national monuments and the physical, immediate surroundings of them, as well.

But, you know, we don't do that to any other city. And if we're going to do it to DC, then we've got to somehow compensate them for that kind of additional aesthetic imposition upon their economic development capacity. Again, this is another point that can be raised legitimately in justifying a Federal payment.

I should mention, though, that it is not the private developers who are trying to make a killing off a high-rise building that make some parts of the District look like schlock, it's the Federal Government. If we want to find the problem, we can look right in the mirror, in the larger sense. I don't mean you.

But, I mean, GSA has built some of the schlockiest looking buildings that most private developers never would have thought of. When you look at DOT and HUD, and you go down Independence Avenue, that stuff is junk. The developers and the architects, particularly, ought to be ashamed of themselves. Then you see some of the beautiful buildings.

Mr. DAVIS. Why don't you tell it the way it is here.

Mr. MORAN. I'm going to try. It's a shame. You know, when you look at what the Federal Government is capable of doing, the Old Executive Office Building, and there are a few buildings that are just gorgeous, but recently, in the last 30, 35 years, everything they put up is just so mundane and uncreative. There are some exceptions.

I feel very strongly, Mr. Barr, as does Mr. Davis and Ms. Norton, and I know Mr. Horn, as well, that the White House deserves a lot of credit.

Mr. BARR. Thank you.

Mr. MORAN. You gave us a good plan, and you led with it. You know, you showed some leadership. That's terrific. But it is inadequate. If we want to do it right, we're going to have to do more than that, more than the Economic Development Corp., more than taking over a number of obvious functions that are State-oriented.

We can't expect any municipality, particularly a municipality like DC that has lost so much of its tax base, to maintain not only the local share but the State share of Medicaid, AFDC, and the like. Medicaid, we may even want to think about the rate that New York State provides, which, combined with the Federal payment, is 75 percent.

Given those State functions, which we agree on, given the Economic Development Corp. initiatives, which, for the most part, I think we agree on, although some of them are more geared toward a city with very little growth capacity, so that you're trying to subsidize employment, and so on, I'm not sure—this is what Mr. Davis was saying—that we really need to do that.

If we bring in the businesses, we don't need to pick and choose which businesses. They will provide the jobs. And if we bring in the right businesses, we don't need to supplement them with $4,000 per employee, as long as those employees have a basic education and some skills with them.

But in addition to that, we're not going to be able to drop the Federal payment, I don't think. I think we're going to have to have a Federal payment that is exactly in lieu of taxes, which comes to about $382 million today, and it would go up with the increased value of property.

And we have to reform these local taxes and fee structures that are mitigating so strongly against local economic development within the District. If you pull in a number of the employers that Tom and I represent and ask them, why wouldn't you move to the District, they might at first say, well, it's so obvious.

But then you pin them down, and they will start talking about a commercial property tax rate that is more than twice what it is in Virginia, $2.15; ours is about $1.07. So it's exactly twice. Your residential base is 96 cents. We don't split the residential from the commercial base. They are going to talk about these workmen's comp. laws that are unbelievable, to think you have to pay three times as much for workmen's comp. That kind of thing has to be reformed.

One of the things they are going to say is, the labor structure is impossible to work with in some of these industries. That's going to have to be addressed. It's vastly different in the suburbs, obviously. They are going to talk about some of the fees and permits and the responsiveness of the Government to even getting those fees and permits. A whole long list of things.

Those are things I think are the first things they are going to talk about. I never hear them talking about, well, you know, if I could get a $4,000 rebate on my low-income employees, that would convince me to move to the District. It might convince a few construction firms. I doubt it. They don't mention any of the subsidies, the incentives that you're talking about. They mention basic, profound, structural problems. So I think we need to look at those in addition to what you have suggested.

What you have suggested is kind of the traditional Government response, to subsidize lower income workers. Well, I won't argue whether it's traditional government, but I think, in many ways, it's assuming that we're starting from a pretty low base here and somehow we've got to subsidize businesses for coming into the District.

I'm not sure we need to subsidize businesses. I think we just need to create an equal playing field with the suburbs in order to entice them, and particularly to entice the businesses that are growing, that have high profit margins, that are employing those 50,000 unfilled jobs that you can see in the classified pages every single Sunday, 19,000 high-tech jobs.

Those are the jobs that are growing. Those are the jobs that will pick it up and carry the economic ball without the need for any subsidies. I'm not sure that this directly addresses that.

I thank the chairman. I've used up my time. I thank him for giving me the time.

Mr. DAVIS. Thank you, Mr. Moran.

Mrs. Morella, do you want to ask any questions?

Mrs. MORELLA. No.

Mr. DAVIS. Mr. Barr, thank you for being here. We will have some followup questions we might want to send you on a written basis, but more importantly, we just look forward to sitting with you across the table as we try to construct something that will work for the city.

You have heard a wide variety of views here, and I'm not sure that any of us are disagreeing with anybody's views. It's a question of how do we best use them with limited priorities and tax incentives? We're going to have to sit down and try to hopefully come up with something that works.

We appreciate, again, your being here today, your testimony, and look forward to working with you. Thank you.

Mr. BARR. Thank you very much, Mr. Chairman.

Mr. DAVIS. I call our next witness, Mr. Kenneth Kies, the staff director of the Joint Committee on Taxation.

Ken, as you know, it's the policy of this committee that all witnesses be sworn before they testify. Would you just raise your right hand with me?

[Witness sworn.]

Mr. DAVIS. Thank you very much. You may be seated.

The subcommittee will carefully review any written statements you care to submit, and I ask unanimous consent that any such statement be made part of the permanent record.

As I requested of the previous witness, I would ask you to limit your oral testimony to 5 minutes so that we may have sufficient time for questions and subsequent panels.

Thank you.

STATEMENT OF KENNETH KIES, STAFF DIRECTOR, JOINT COMMITTEE ON TAXATION

Mr. KIES. Thank you, Mr. Chairman.

My name is Ken Kies. I'm the chief of staff of the Joint Committee. It is my pleasure to present the testimony of the Joint Committee at this hearing, concerning the administration's proposals for the District of Columbia.

The administration has proposed a package of tax and nontax initiatives to revitalize the District's economy. I will briefly describe the administration's proposals, which your prior witness already summarized.

The first proposal would establish a new District of Columbia Economic Development Corp. to develop and oversee a comprehensive economic development strategy for the District.

Second, the proposal would provide four new tax incentives for businesses conducting business activities in the District: a new employment credit; extension of the proposed "welfare-to-work" credit; additional expensing under section 179 and expanded tax-exempt development bonds; and finally, tax credits for certain equity investment in or loans to District of Columbia businesses.

It is acknowledged that the District faces two key problems: residents migrating from the District and insufficient economic development activity. The administration's proposals directly address the second of these problems but would not have a direct effect on stemming migration of District residents.

In any event, the efficacy of tax incentives to address one or both problems is severely limited, absent fundamental structural reform of the District's government and economy. Many of these issues would be addressed by other aspects of the administration's proposals.

Let me just address some of the compliance and administrative issues that will be raised by the proposed tax incentives. These issues arise primarily because of slightly differing residency and work location tests applied to determine a taxpayer's eligibility for each tax incentive.

For example, for an employer to claim the proposed employment credit with respect to an employee, three tests must be satisfied: the residence test, the work location test, and an income test. To satisfy the residence test, the employee must live in the District throughout the entire first year of employment. If the employee moves out of the District at any point during the year, they become ineligible for the entire credit.

To satisfy the income test, the employee must either be a member of a targeted group for purposes of the work opportunity tax credit, or the employee must live in a census tract in the District that has a poverty rate of 15 percent or more, and reasonably expect to be paid less than $28,500 for the year.

Finally, to satisfy the work location test, substantially all the services provided by the employee must be in the District, or the employer's principal place of business must be located in the District.

Each of these tests requires extensive recordkeeping and verification procedures throughout the period the credit is earned. The difficulties inherent in collecting and maintaining necessary information to ascertain credit eligibility mean that there is a high probability of noncompliance, intentional as well as unintentional.

Similar complexity in compliance issues arise with respect to each of the other proposed tax incentives, all of which incorporate slightly different requirements with respect to employee residency or the location of business activities.

In addition, because the complex eligibility tests are not based on one-time determinations, but rather must be satisfied on a yearlong basis, business owners would have to speculate at the time of employment or when an investment decision is made as to whether they would be able to claim the special tax incentives at the end of the year. Thus, the incentive effect of the proposals would be limited.

My written testimony does raise one constitutional issue which the committee and the Congress will have to consider as they act on this legislation. It specifically relates to the uniformity clause. In particular, as this legislation is developed, a more detailed record as to the basis for the classifications chosen would be highly recommended in order to avoid a potential uniformity clause problem.

Finally, the staff of the Joint Committee estimates that the proposals would reduce Federal budget receipts by just over $300 million in the 10-year budget period from fiscal 1998 to fiscal year 2007. The proposed tax incentives attempt to encourage the startup and retention of business in the District and the hiring of lower income District residents.

In general, the proposed incentives are sufficiently modest in scope so that it is not anticipated that they will result in any major increase in the growth of the economy of the District metropolitan area as a whole. However, concentrated allocation of the capital incentives by the Economic Development Corp. could result in significant revitalization of targeted areas within the District.

In addition, the removal of current obstacles that inhibit the District's ability to issue debt and the creation of a new category of private activity bonds should enable the District to make substantial use of its private activity bond volume cap within 4 or 5 years. These private activity bonds will provide a cheaper source of funds for both startup businesses and business expansions within the District, as will the startup capital generated by the tax credits.

Finally, the revenue estimate also assumes that there is likely to be some confusion about the exact boundaries of eligible areas and the residency of particular employees that will result in some ineligible businesses claiming the expensing and or wage credits.

The issues I have touched on this morning are discussed in more detail in my written testimony. I will be happy to answer any questions that you have, Mr. Chairman, or members of the committee.

[The prepared statement of Mr. Kies follows:]

WRITTEN TESTIMONY
OF THE STAFF OF THE JOINT COMMITTEE ON TAXATION
REGARDING PRESIDENT CLINTON'S TAX PROPOSALS
FOR THE DISTRICT OF COLUMBIA

FOR A HEARING OF
THE SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA
OF THE HOUSE COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
105TH CONGRESS
ON
MAY 22, 1997

PRESENTED BY
KENNETH J. KIES
CHIEF OF STAFF
JOINT COMMITTEE ON TAXATION
U.S. CONGRESS

JCX-15-97

May 22, 1997

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I. INTRODUCTION

This document[1] represents the written testimony of the staff of the Joint Committee on Taxation at a hearing held on May 22, 1997, by the Subcommittee on the District of Columbia of the House Committee on Government Reform and Oversight concerning the tax proposals relating to the District of Columbia initially referenced in President Clinton's fiscal year 1998 budget.

The General Explanation of the Administration's Revenue Proposals prepared by the Department of Treasury states that tax incentives are proposed "to encourage employment of disadvantaged residents and to revitalize those areas of the District of Columbia where development has been inadequate."[2] However, the details of such tax proposals were not available at the time the Administration originally submitted its fiscal year 1998 budget to the Congress. The Administration subsequently has provided details of its proposed tax incentives for the District of Columbia as part of its National Capital Revitalization and Self-Government Improvement Plan.

This testimony describes the Administration tax-related proposals and discusses certain issues raised by the proposals. These include compliance and administrative issues, residency issues, and federalism and other issues. Finally, it discusses the revenue analysis of the proposals prepared by the staff of the Joint Committee on Taxation, and reviews certain behavioral and other assumptions underlying the revenue estimate.

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[1] This document may be cited as follows: Joint Committee on Taxation, *Written Testimony of the Staff of the Joint Committee on Taxation Regarding President Clinton's Tax Proposals for the District of Columbia"* (JCX-15-97), May 22, 1997.

[2] *General Explanation of the Administration's Revenue Proposals*, Department of Treasury, February, 1997, page 31.

II. DESCRIPTION OF PROPOSAL

A. Summary of Key Features

- The proposal would establish a new District of Columbia Economic Development Corporation to develop and oversee a comprehensive economic development strategy for the District of Columbia.
- The proposal would provide four new tax incentives for businesses conducting business activities in the District of Columbia--a new employment credit and extension of the proposed welfare-to-work credit, additional section 179 expensing, expanded tax-exempt development bonds, and tax credits for certain equity investments in and loans to District of Columbia businesses.
- The employment credit would provide employers a 40-percent credit on $10,000 of first-year wages paid to employees who are District residents and who meet certain other requirements. Thus, the maximum credit would be $4,000 per employee.
- The proposal would extend the welfare-to-work credit proposed in the Administration's fiscal year 1998 budget for an additional two years with respect to certain District residents.
- Qualified District businesses would be eligible to receive up to $20,000 of additional expensing under Code section 179 for certain depreciable business property placed in service during the taxable year.
- Qualified District businesses would be permitted to borrow proceeds from the issuance of a new category of tax-exempt, private activity bonds.
- The District of Columbia Economic Development Corporation would be authorized to allocate $95 million in tax credits to taxpayers that make certain equity investments in, or loans to, businesses conducting business activities in the District of Columbia.
- The proposal would clarify and expand the District of Columbia's authority to issue general revenue bonds.

B. Description of the Proposal

In general, the proposal establishes a new District of Columbia Economic Development Corporation charged with developing a comprehensive economic development strategy for the District of Columbia. The proposal also provides four new Federal tax incentives to encourage economic development in the District of Columbia. In addition, the proposal clarifies and expands the District of Columbia's authority to issue revenue bonds. The following briefly describes the powers and duties of the Economic Development Corporation, and outlines the new Federal tax incentives and the District's expanded revenue bond authority.

District of Columbia Economic Development Corporation

The proposal would establish a new "District of Columbia Economic Development Corporation." The Economic Development Corporation ("EDC") would be an instrumentality of the District government for Federal income tax purposes, and thus would be eligible to receive tax-deductible charitable contributions.

The powers of the EDC would be vested in a board of directors consisting of nine voting members. Five directors would be appointed by the President of the United States, in consultation with the Congress. The five directors would be required to maintain a primary residence in the District or have a primary place of business in the District, and such directors could not otherwise be employees of the District government or of the Federal government. Of the five directors appointed by the President, four directors would be selected from the for-profit business community and one director would be selected from "community-based organizations." One of the five directors selected by the President would be designated as chair of the board. One director would be selected by the Mayor from the for-profit business community or from community-based organizations.[3] The remaining three members of the board of directors would be *ex officio* members, and would include one member chosen by the President from certain Federal agencies, the Mayor or a designee, and the Chairman of the District Council or a designee. The members of the board of directors generally would serve six-year terms.

The EDC would be directed to review and evaluate existing economic development plans for the District, and then to establish a comprehensive strategic plan for carrying out economic development in the District of Columbia. In furtherance of this directive, the EDC would be authorized to provide financial assistance for economic development projects. Such financial assistance would include making loans, extensions of credit, equity investments, or grants; leasing or conveying of land; allocating tax credits for qualified equity investments and loan; issuing tax-exempt private activity bonds; and issuing project revenue bonds for any economic development project approved by the EDC. The total amount of financial assistance provided would be limited to the capital of the EDC (which would include a Federal appropriation of $50 million for fiscal year 1998) and the value of the land of the EDC. Generally, no one person or project could receive financial assistance valued at more than 15 percent of the total capital and land of the EDC. However, no such limits (aggregate or individual) would apply to tax credits, loans funded from the proceeds of tax-exempt economic development bonds or project revenue obligations, which are subject to separate limits described below. The EDC would be required to provide the lesser of $20 million or 40 percent of the amount appropriated directly to non-profit organizations (or to nonprofit intermediary organizations) to promote and finance job training,

[3] This director also would be required to maintain a primary residence in the District of have a principal place of business in the District, and could not otherwise be an officer or employee of the District government or of the Federal government.

placement and related activities for certain targeted residents of the District of Columbia.[4]

In reviewing applications for financial assistance, the EDC would be directed to consider certain factors, including (1) the likelihood the project can be expected to create or retain private sector jobs in the District of Columbia; (2) the contribution of the project to the economy of the District of Columbia; (3) whether the project will serve the interests of the community where it is located; (4) whether the project is located in a distressed area (generally defined as a population census tract with a poverty rate of at least 15 percent); (5) whether the project is consistent with the comprehensive strategic plan developed by the EDC; and (6) whether the project will improve links between the economy of the District of Columbia and the surrounding region. In general, with respect to any project, the EDC would be intended to act as the funding source of last resort, and would commit no more than the minimum capital necessary.

The EDC would have the authority to issue project revenue bonds, including refunding obligations, and to use the proceeds to provide financial assistance to economic development projects in the District. Such bonds would not be obligations of the District of Columbia or of the Federal government, but would be special obligations of the EDC, payable solely from the revenues, assets and property of the economic development project for which the financial assistance is provided. The EDC would not be authorized to issue general obligation bonds and the amount of any project revenue bonds would be excluded from the amount of general obligation bonds the District of Columbia is permitted to issue. In addition, the EDC would have power to acquire and assemble land through condemnation in the name of the District of Columbia (referred to as the "power of eminent domain") to carry out its economic development purposes. The EDC would not have the power to tax or to pledge, encumber or otherwise place a lien on District tax revenues.

The EDC would not be permitted to enter into any commitment to provide new financial assistance or to issue any new project revenue bonds after September 30, 2007. The EDC generally would be required to terminate its affairs on or before September 30, 2010, at which time its assets would be liquidated or transferred to another entity selected by the District Council. If the EDC has not terminated its affairs by September 30, 2010, the Mayor of the District of Columbia would have the responsibility to terminate the EDC and would succeed to all of its power, assets, duties and liabilities in order to effect that termination.

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[4] For these purposes, "targeted residents" would mean individuals whose principal place of abode is in the District and who either (1) are members of a targeted group for purposes of the work opportunity tax credit (see footnote 6 for list of targeted groups) or (2) live in a population census tract with a poverty rate of at least 15 percent and have an annual income of less than $28,500. Because nonprofit organizations that are tax-exempt cannot utilize the employment or welfare-to-work credits described below, amounts appropriated under this provision could provide an analogous subsidy to encourage the hiring of disadvantaged District residents.

New Tax Incentives

The proposal would provide four new tax incentives for businesses located or conducting business activities in the District of Columbia--an employment credit and extended District welfare-to-work credit, additional expensing under Code section 179, expanded tax-exempt development bonds, and tax credits for certain equity investments in and loans to District of Columbia businesses.

District of Columbia employment credit; extension of welfare-to-work credit

The proposal would provide employers a 40-percent credit on the first $10,000 of eligible wages paid to qualified District employees during the employee's first year of employment with the employer. Thus, the maximum credit would be $4,000 per employee.

An individual would be a "qualified District employee" only if he or she satisfies three tests--a residence test, a work-location test, and an income test. To meet the residence test, an individual must be certified by a designated agency as having a principal place of abode in the District of Columbia.[5] The work-location test would be satisfied if either (1) substantially all of the services provided by the employee for the employer during the year are in the District of Columbia or (2) the employer's principal place of business is located in the District of Columbia. Finally, the income test would be satisfied if either (1) the employee is a member of one of the work opportunity tax credit ("WOTC") targeted groups (including the new food stamp recipient group proposed in the President's fiscal year 1998 budget[6]) or (2) the employee lives in a population census tract that has a poverty rate of 15 percent or more[7] and the employer

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[5] This residence test must be satisfied throughout the one-year period during which the wage credit is earned. Thus, if an individual establishes a new principal place of abode outside of the District at any time during that one-year period, then the individual would not satisfy the residence test.

[6] For purposes of the present-law WOTC, targeted groups include: (1) members of families receiving assistance (AFDC or successor program); (2) qualified ex-felons; (3) high-risk youth 18-24 years old who reside in an empowerment zone or enterprise community; (4) vocational rehabilitation referrals; (5) qualified summer youth employees 16 or 17 years old who reside in an empowerment zone or enterprise community; (6) qualified veterans; (7) qualified food stamp recipients who are 18 to 24 years old. The President's fiscal year 1998 budget would extend the WOTC for an additional year through September 30, 1998, and would add a new recipient group that includes adults who are 18-50 years old and are subject to the time limits for food stamp receipt under the Administration's proposals (but who have not become ineligible by refusing to work or failing to comply with the work requirements). This new group would be eligible for a 12-month period beginning on the date the time limit is reached.

[7] As with the residence test, the individual must live in such a census tract throughout the one-year period during which the employment credit is earned.

reasonably expects to pay the employee compensation of not more than $28,500 during the employee's first year of employment. The proposal also would provide that certain employees would not be qualified District employees, including persons related to the employer, prior employees who are fired and rehired, employees who are employed for fewer than 180 days or have completed fewer than 400 hours of service for the employer, and individuals employed by certain businesses (i.e., private and commercial golf courses, country clubs, massage parlors, hot tub facilities, suntan facilities, racetrack or other facility used for gambling, or any liquor store).

Eligible wages would include cash wages, as well as amounts paid by the employer for the following: (1) educational assistance excludable from income under Code section 127 (or that would be excludable but for the expiration of section 127); (2) health plan coverage for the employee, but not more than the applicable premium defined under Code section 4980B(f)(4); and (3) dependent care assistance excludable from income under Code section 129.[8]

An employer's District of Columbia employment credit would be reduced to the extent that the employer claims the WOTC and the proposed welfare-to-work credit for any of the same wages paid to qualified District employees.

The proposal would be effective for wages paid to qualified employees hired after the date of enactment and before October 1, 2002.

Extension of welfare-to-work credit for certain D.C. residents

The President's fiscal year 1998 budget includes a new welfare-to-work credit. The proposal would provide employers a 50-percent credit on the first $10,000 of eligible wages[9] paid to qualified long-term family assistance (AFDC or its successor program) recipients[10] for both the first and second years of employment. Thus, the maximum credit each year would be $5,000 per qualified employee. The proposed welfare-to-work credit would be effective for individuals hired from the date of enactment through September 30, 2000.

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[8] Under the proposal, it is not clear if this definition of "wages" also applies for purposes of determining whether an employee's "compensation" exceeds $28,500.

[9] The definition of eligible wages would be the same as for the employment credit, described above.

[10] Qualified long-term family assistance recipients would mean any individual who is certified by the designated local agency as being a member of a family that: (1) has received family assistance for at least 18 consecutive months ending on the hiring date; (2) has received family assistance for a total of at least 18 months (whether or not consecutive) after the date of enactment of this credit if the individual is hired within 2 years after the date that the 18-month total is reached; and (3) is no longer eligible for family assistance because of either Federal or State time limits, if the individual is hired within 2 years after the Federal or State time limits made the family ineligible for family assistance.

The District of Columbia proposal would extend the proposed welfare-to-work credit for an additional two years, from September 30, 2000, to September 30, 2002, with respect to certain residents of the District. To qualify for the extended credit, a qualified long-term family assistance (AFDC or its successor program) recipient's principal place of abode must be in the District during the two years of employment on which the credit is claimed[11] and either substantially all of the services performed by the employee must be performed in the District of Columbia or the employer's principal place of business must be located in the District.

Additional section 179 expensing

Qualified District businesses would be eligible to receive up to $20,000 of additional expensing under Code section 179 for qualified District property placed in service during the taxable year. Thus, for 1998, qualified District businesses would be allowed to expense up to $38,500 of the cost of certain business equipment and machinery.

The allowable amount that could be expensed under the proposal would be reduced by $.50 for each $1.00 of investment over $400,000. Thus, for 1998, the $38,500 maximum expensing amount allowed under the proposal would be phased out for businesses with investment between $400,000 and $477,000.

"Qualified District business"

A "qualified District business" generally would be required to satisfy a two-part test. First, the business would be required to have a significant portion of its activities in census tracts within the District that have a poverty rate of 15 percent or more. Second, the business would be required to satisfy certain of the criteria of an "enterprise zone business" under Code section 1397B.[12] Thus, a qualified District business would be a corporation or partnership (or proprietorship) that has a significant portion of its activities in census tracts in the District with poverty rates of 15 percent or more if, for the taxable year: (1) at least 80 percent of the total gross income is derived from the active conduct of a "qualified business" within the District; (2) substantially all of the business's tangible property is used within the District; (3) substantially all of the business's intangible property is used in, and exclusively related to, the active conduct of such business; (4) substantially all of the services performed by employees are performed

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[11] In contrast to the employment credit which requires residency throughout the year of employment on which the credit is claimed, the extended welfare-to-work credit requires residency during the two-year employment period. It is assumed that the requirements are intended to be parallel, and require an individual to maintain a principal place of abode in the District throughout the applicable period.

[12] However, qualified District businesses that are corporations or partnerships would not be subject to the requirement that the sole trade or business of the corporation or partnership be the active conduct of a qualified business within the District.

within the District; (5) at least 35 percent of the employees are residents of the District; and (6) no more than five percent of the average of the aggregate unadjusted bases of the property owned by the business is attributable to certain financial property or collectibles not held primarily for sale to customers in the ordinary course of an active trade or business.[13]

A "qualified business" is defined under present-law section 1397B as any trade or business other than a trade or business that consists predominantly of the development or holding of intangibles for sale or license.[14] In addition, the leasing of real property that is located within the District to others would be treated as a qualified business only if (1) the leased property is not residential property, and (2) at least 50 percent of the gross rental income from the real property is from qualified District businesses. The rental of tangible personal property to others would not be a qualified business unless substantially all of the rental of such property is by qualified District businesses or by residents of the District.

"Qualified District property"

Qualified District property would be defined to mean any property that would constitute qualified zone property under present law section 1397C, with certain modifications. Thus, qualified District property would be depreciable property acquired by the taxpayer by purchase after the date of enactment, substantially all of the use of which is in the active conduct of a

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[13] The President's fiscal year 1998 budget also contains a proposal to modify section 1397B so that rather than requiring that "substantially all" tangible and intangible property (and employee services) of an enterprise zone business be used (and performed) within a designated zone or community, a "substantial portion" of tangible and intangible property (and employee services) of an enterprise zone business would be required to be used (and performed)) within a designated zone or community. Moreover, the proposal would further amend the section 1397B rule governing intangible assets so that a substantial portion of an entity's intangible property must be used in the active conduct of a qualified business within a zone or community, but there will be no need (as under present law) to determine whether the use of such assets is "exclusively related to" such business. However, the present-law rule of section 1397B(d)(4) would continue to apply, such that a "qualified business" would not include any trade or business consisting predominantly of the development or holding or intangibles for sale or license. The proposal also would clarify that an enterprise zone business that leases to others commercial property within a zone or community may rely on a lessee's certification that the lessee is an enterprise zone business. Finally, the proposal would provide that the rental to others of tangible personal property shall be treated as a qualified business if and only if at least 50 percent of the rental of such property is by enterprise zone businesses or by residents of a zone or community (rather than the present-law requirement that "substantially all" tangible personal property rentals of an enterprise zone business satisfy this test).

[14] Also, a qualified business does not include certain facilities described in section 144(c)(6)(B) (e.g., massage parlor, hot tub facility, or liquor store) or certain large farms.

qualified District business. Property that is substantially renovated could constitute qualified District property if, during any 24-month period after the date of enactment, additions to basis with respect to the property exceed the greater of (1) an amount equal to 15 percent of the adjusted basis of the property in the hands of the taxpayer at the commencement of the 24-month period, or (2) $5,000.

The additional expensing would be available for property placed in service after December 31, 1997, and before January 1, 2003.

Tax-exempt economic development bonds

A qualified District business (defined above) would be permitted to borrow proceeds from the issuance of a new category of tax-exempt, private activity bonds. The proceeds from such bonds could be used to finance certain business property, including commercial and retail facilities as well as the land underlying such facilities. The aggregate amount of outstanding bond proceeds that could be borrowed by any qualified District business could not exceed $15 million.

The bonds would be subject to the District's present-law, annual $150 million private activity bond volume cap. The EDC (described above) would have authority to allocate $75 million of the District's annual private activity bond volume cap (i.e., 50 percent of the District's annual $150 million private activity bond volume cap).

The special tax-exempt bond provisions would apply to bonds issued after the date of enactment and prior to January 1, 2003.

Tax credits for equity investments in and loans to businesses located in the District of Columbia

The EDC (described above) would be authorized to allocate $95 million in tax credits to taxpayers that make certain equity investments in, or loans to, businesses (either corporations or partnerships) engaged in a trade or business in the District. Such credits would be nonrefundable and could be used to offset a taxpayer's alternative minimum tax (AMT) liability.

Under the proposal, the amount of credit could not exceed 25 percent of the amount invested (or loaned) by the taxpayer. Thus, the EDC could allocate the full $95 million in tax credits to no less than $380 million in equity investments in, or loans, to District businesses. The EDC would allocate the credits pursuant to criteria established by the EDC itself. Such criteria would include, among numerous factors, whether the project is located in a distressed area (defined as a census tract with a poverty rate of at least 15 percent) or benefits the residents of a distressed area.

Under the proposal, credits could be allocated to loans made to District businesses only if the business uses the loan proceeds to purchase depreciable tangible property and any functionally related and subordinate land. Any credits allocated to a taxpayer making an equity investment would be subject to recapture if the equity interest is disposed of by the taxpayer within five years.

The credits could be allocated by the EDC for equity investments or loans made during the period January 1, 1998, through December 31, 2002. However, taxpayers would not be allowed to claim any unused credits in a taxable year that ends after December 31, 2002.[15]

Clarification and expansion of District's authority to issue revenue bonds

The proposal would modify Federal law (other than Federal tax laws contained in the Internal Revenue Code) to expand the District's authority to issue revenue bonds. Specifically, the proposal would authorize the District government to approve the issuance of taxable and tax-exempt revenue bonds to finance, refinance, or reimburse the costs of certain facilities not covered by existing revenue bond authority. These facilities would be: (1) sports, convention, tourism, hospitality and entertainment facilities; (2) manufacturing facilities; (3) industrial and commercial development facilities; (4) facilities to house and equip operation of the District government or its instrumentalities; (5) public infrastructure development and redevelopment; (6) elementary and secondary education facilities; (7) solid and hazardous waste disposal facilities; (8) parking facilities; (9) any other project that will, as determined by the District Council, contribute to the health, safety, welfare, the creation or preservation of jobs, or the economic development of the District of Columbia or its residents; and (10) any facilities or real or personal property used in connection with or supplementing any of the foregoing.

In addition, the proposal would clarify the District of Columbia's authority to provide security and insurance for revenue bonds, and would expand the District's authority to delegate to any instrumentality of the District government the authority to issue taxable or tax-exempt revenue bonds, to borrow money, and to provide insurance for any authorized purpose. Finally, the proposal would exclude the amount of any revenue bonds issued by the District of Columbia or instrumentality thereof from the limitations on the amount of general obligation bonds that the District of Columbia is authorized to issue.

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[15] As a general business credit, the credit could be carried back three years (but not before the date of enactment) and forward for fifteen years, subject to the limitation that no credit could be claimed in a taxable year ending after December 31, 2002.

III. DISCUSSION OF ISSUES

A. Compliance and Administrative Issues

The Administration's proposed tax incentives for the District of Columbia would raise a number of compliance and administrative issues. Individuals and corporate taxpayers claiming the proposed employment credit or the special District welfare-to-work credit, additional expensing under Code section 179, or tax credit for certain equity investments or loans (or some combination of such tax incentives) would be subject to special tax rules in computing their Federal income tax liability.[16] In addition to the increased complexity in calculating tax due, or any refund, on the taxpayer's annual return, determining the appropriate withholding or estimated tax payments could also be more complicated for taxpayers who may claim one or more of the proposed special tax incentives, assuming that the taxpayer attempts to adjust withholding or estimated tax payments in order to receive the maximum economic value of the tax incentives. However, such increased complexity could be viewed as a justifiable tradeoff for the benefits flowing from the tax incentives.

Complexity also arises under the proposal because different tests for qualifying businesses and eligible employees apply for purposes of the different District of Columbia tax incentives proposed by the Administration. While these differing tests may be designed to further different policy objectives, such as targeting benefits to particular groups, realization of those objectives could be undermined by deliberate as well as unintentional noncompliance with the differing tests for qualifying businesses and eligible employees.[17]

Employee residency tests.--The proposed employment credit and special District welfare-to-work credit, additional section 179 expensing, and tax-exempt financing benefits would not be available with respect to all employees who live or work, or businesses located, in the District. For example, the employment credit could be claimed only with respect to a subset of employees (i.e., employees who not only reside in the District for the entire year the credit is earned, but also are members of a WOTC targeted group, or residents of a census tract with a high poverty rate with expected income of less than $28,500). In contrast, the additional section 179 expensing and tax-exempt financing benefits would be available only if, with respect to a taxable

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[16] The proposal to create a new category of tax-exempt, private activity bonds would, from the perspective of taxpayers who hold tax-exempt bonds, not add complexity to the present-law rules that allow taxpayers to exclude interest income on tax-exempt bonds from gross income.

[17] The proposal includes a requirement that the EDC engage an independent consulting firm to evaluate the efficacy of the new tax incentives as aids to the EDC in carrying out its purposes. Such evaluation would be performed in the fiscal years ending September 30, 2001, and 2005, and the EDC would report the results to the Mayor, the District Council, the District Control Board, the President, and the Congress.

year, the business had a "significant portion" of its activities in census tracts with high poverty rates and at least 35 percent of the employees of the business are residents of <u>any</u> census tract within the District (regardless of the poverty rate in the census tract). In order for these proposed tax incentives to have real incentive effects, a taxpayer would, at the time that a hiring or investment decision is made, have to speculate whether, by the end of the year, the required nexus to census tracts with high poverty rates will be satisfied.[18]

With respect to the proposed employment credit, the proposal requires that a qualified employee must be a District resident throughout the one-year period after the employee begins work for the employer. For the proposed special District welfare-to-work credit, an employee must be a District resident throughout the two-year period after the employee commences work. In addition, if the employee is not a member of a WOTC-targeted group, he or she must have his or her "principal place of abode" for the entire year within a population census tract in the District that has a poverty rate of 15 percent of more and expect to be paid less than $28,500. Determining whether an employee's "principal place of abode" is within such a census tract for the entire one-year period would be difficult. A similar issue arises with respect to employees who are members of a WOTC-targeted group or with respect to whom a District welfare-to-work credit is claimed, although, for these purposes, the employee's "principal place of abode" can be anywhere within the District. An individual may have more than one place of abode, or could claim to reside with relatives or friends for some portion of the one-year (or two-year) period. The Administration's proposal specifically requires that, for each employee with respect to whom the employment credit or District welfare-to-work credit is claimed, the employer must obtain certification from a local designated agency that the employee's principal place of abode is within the District as a whole and, for employees who are not members of a WOTC-targeted group, within a high poverty rate census tract in the District. However, this certification would be obtained before (or shortly after) the time that an employee begins work for the employer and, thus, would not guarantee that the employee satisfies the residency test for the entire one-year (or two-year) period.

In addition, because the proposed employment credit would be available only during an employee's first year of employment with the employer, there would be an incentive for employers to fire existing employees (i.e., those who have worked for that employer for more than one year) and hire new employees (or even trade employees with other employers) and thereby claim the maximum $4,000 credit with respect to the new employees. The Administration's proposal includes a rule to prevent rehiring of the <u>same</u> employee, but if the proposal were to be modified to prevent the "churning" of different employees to fill the same

[18] The nexus to a census tract with a high poverty rate would not be required when an employment credit is claimed with respect to an employee who is a member of a WOTC-targeted group. Nevertheless, even though that employee has been certified as being a WOTC-targeted group member at the start of his or her first year of service, eligibility for the credit could be lost if that employee moves out of the District at any time during the first year of service for that employer.

position, potentially complex anti-avoidance rules could be required.[19]

Business activity tests.--For purposes of the proposed employment credit and District welfare-to-work credit, the business activity itself carried out by the employee need not be conducted in a census tract with a high poverty rate. The business activity engaged in by the particular employee need not even be conducted anywhere within the District if the employer's principal place of business is located in the District. Still, the proposed employment credit and District welfare-to-work credit could raise compliance and administrative issues for businesses that do not have a principal place of business in the District because the proposal requires that, with respect to such a business, "substantially all" services performed by the employee must be performed within the District. For example, it is not clear how such a "substantially all" services test would be applied in the case of a property management company where some clients served by the particular employee are located outside the District but within the same metropolitan area.

With respect to the proposed additional expensing under Code section 179 and new category of tax-exempt, private activity bonds, only "qualified District businesses" would be eligible for such special tax incentives. A "qualified District business" would be required to have a "significant portion" of its activities in census tracts that have poverty rates of 15 percent or more. It is not clear how this "significant portion" test (which applies to particular census tracts) would be compared to the "substantially all" test (described above for the proposed employment credit and District welfare-to-work credit and which applies on a District-wide basis). Applying this "significant portion" test could be difficult, particularly in cases of businesses that do not have one fixed business location where most business activities are conducted. For example, would a taxpayer who stores repair equipment in a high poverty rate census tract satisfy the "significant portion" test if most or all of the repair work is performed at the location of clients who live outside the census tract? Even when this "significant portion" test is satisfied, a qualified District business must satisfy the additional requirement that at least 35 percent of its workforce be residents of the District (as well as certain criteria from Code section 1397B). In this regard, the residency test--in contrast to the proposed employment credit for employees who are not members of a WOTC-targeted group--is not tied to census tracts with high poverty rates, but rather is determined by looking at the District in its entirety. Nonetheless, similar problems of determining (and verifying) where each employee resides will arise, as discussed above. As a result, a taxpayer may not know until the end of a taxable year whether the "significant portion" test or 35-percent resident workforce test will be satisfied, even though the decision to invest in section 179 property or to utilize tax-exempt financing may have to be made at a much earlier time.

With respect to the proposed tax credits for equity investments in, and loans to,

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[19] In contrast, the present-law employment credit available in empowerment zones under Code section 1396 is not limited to the first year of an employee's work for the employer and, thus, does not create an incentive to fire employees simply because they have completed more than one year of employment for an employer in the empowerment zone.

businesses engaged in trade or business activities in the District, taxpayers that wish to make an investment (or loan) and claim the credit would first have to obtain a credit allocation from the EDC. In contrast to the proposed additional expensing under Code section 179 and special tax-exempt bond financing, there is no requirement that the business that is allocated this special tax benefit be a "qualified District business." Thus, in theory, any business located anywhere in the District (and any investor located inside or outside the District) could seek an allocation from the EDC of tax credits to subsidize investment in such business. Applying for such a credit allocation (regardless of whether the application formally is submitted by the investor/lender or the business that will receive the funds) will result in transaction costs that will invariably lessen the value of the maximum 25 percent subsidy that could be allocated in the form of a tax credit to a particular investment. On its face, the Administration's proposal would allow the EDC to allocate tax credits (up to an aggregate amount of $95 million) to any business located anywhere within the District. However, the proposal specifically provides that the EDC will allocate credits pursuant to criteria it establishes, including, among numerous other factors, "whether the project is in a distressed area or benefits the residents of a distressed areas." Thus, projects that are not targeted to particular distressed areas within the District, but rather are located in relatively affluent areas of the District, may be reluctant to incur the transaction costs of applying for a credit allocation if it is likely that other applicants will be judged more favorably by the EDC.

B. Application of the Uniformity Clause

The provision of special tax treatment to certain business activities conducted in the District of Columbia as contemplated in the Administration proposals raises a potential constitutional issue. Because the proposals provide preferential tax treatment based on a geographic classification, it would be subject to potential challenge as a violation of the requirements of the Uniformity Clause of the United States Constitution.

Pursuant to the Constitution, Congress has broad powers to impose taxes. However, the power to tax is not without limits. In particular, the Uniformity Clause requires that taxes "be uniform throughout the United States."[20] The Uniformity Clause operates to prevent the Congress from exercising the power to tax with the purpose of providing undue preferences for one region of the country over other regions.[21]

The requirement of uniformity in taxes extends not only to the States, but also to the District of Columbia. In considering the application to the District of Columbia of Congress'

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[20] Article I, section 8, clause 1.

[21] Although there historically has been some debate over the application of the Uniformity Clause in the case of income taxes, there is now a consensus that income taxes are within the scope of the Uniformity Clause. See Brushaber v. Union Pacific Railroad Co., 240 U.S. 1 (1916).

power to tax and the limiting requirement of uniformity, the Supreme Court noted that "the [D]istrict of Columbia . . . is not less within the United States, than Maryland or Pennsylvania...."[22] The Supreme Court revisited this issue in Downes v. Bidwell, 182 U.S. 244 (1901), a case involving the question of the application of the revenue clauses of the Constitution to the territories of the United States. In Downes, the Court cited with approval the earlier determination in Loughborough that the power to tax and the related requirement of uniformity are applicable to the District of Columbia, noting that such result is consistent with the fact that the District of Columbia had been part of the States of Virginia and Maryland: "[i]ndeed, it would have been a fanciful construction to hold that territory which had been once part of the United States ceased to be such by being ceded directly to the Federal government."[23]

In contrast to its application to the District of Columbia, the Uniformity Clause is not necessarily applicable to the U.S. territories. In the case of the territories, its application depends upon the status of the particular territory. The Supreme Court in Downes concluded that the Uniformity Clause is not applicable to those territories that are not explicitly incorporated into the United States.[24] On this basis, the Court held that the Uniformity Clause did not bar the imposition of duties on imports from Puerto Rico.[25] Because the Uniformity Clause is not applicable to the Commonwealth of Puerto Rico, the special tax provisions of present law for residents of, and corporations doing business in, Puerto Rico do not give rise to issues under the Uniformity Clause.

The Uniformity Clause does not require that a tax must have an equal or proportionate effect in every State and the District of Columbia. Rather, the Supreme Court has stated that "a tax is uniform when it operates with the same force and effect in every place where the subject of it is found."[26] Thus, the imposition of a tax on tobacco, for example, is not forbidden under the Uniformity Clause, notwithstanding the fact that tobacco is grown in some States but not in others. On the other hand, a tax that applies only to tobacco grown in a particular State would raise a potential issue under the Uniformity Clause.

Explicit geographic distinctions in Federal tax statutes are not necessarily invalid under the Uniformity Clause. In United States v. Ptasynski, the Supreme Court first considered the issue of whether the Uniformity Clause represents a *per se* prohibition on Congress defining the subject of a tax in geographic terms. In a unanimous opinion, the Court concluded that the

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[22] Loughborough v. Blake, 18 U.S. 317, 319 (1820).

[23] Downes at 261.

[24] Downes at 286-7.

[25] Downes at 287.

[26] United States v. Ptasynski, 462 U.S. 74, 82 (1983) (quoting Head Money Cases, 112 U.S. 580, 594 (1884)).

Uniformity Clause does not prohibit Congress from fashioning legislation to address "geographically isolated problems."[27] If a tax provision is framed in geographic terms, the Court "will examine the classification closely to see if there is actual geographic discrimination."[28]

In Ptasynski, the Court considered whether the exemption from the crude oil windfall profits tax for certain Alaskan oil violated the Uniformity Clause. The Court concluded that the special treatment for Alaskan oil was justified based on neutral factors, citing the disproportionate costs and difficulties involved in oil extraction in the particular region.[29] The Court noted that there was no evidence that Congress intended to grant an undue preference to Alaska.[30] The exemption at issue applied not to all oil produced in Alaska, but only to a relatively small percentage of such oil; moreover, the exemption was not limited to Alaska, but applied also to oil produced in certain offshore territorial waters. In this regard, the Court stated that

> [t]he exemption thus is not drawn on state political lines. Rather it reflects Congress' considered judgment that unique climatic and geographic conditions require that oil produced from this exempt area be treated as a separate class of oil.[31]

Like the windfall profits tax exemption at issue in Ptasynski, the preferential tax treatment that would be provided to certain business activities conducted in the District of Columbia under the Administration's proposal is couched in geographic terms. Accordingly, the provisions would be subject to scrutiny under the Uniformity Clause. The Uniformity Clause analysis with respect to the proposal would turn on whether the provision of special tax treatment to certain business activities conducted in the District could be justified on the basis of neutral factors. Because of the few judicial decisions in this area, the actual level of scrutiny a court would apply is not clear.[32] Indeed, it should be noted that no Federal tax statute has been

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[27] Ptasynski at 83-84.

[28] Ptasynski at 85. In this regard, a commentator has suggested that "[b]y 'actual geographic discrimination,' the Court apparently had in mind a situation in which the geographic distinctions were intended simply to benefit one state or region at the expense of others (or to harm one state or region to the benefit of others), rather than to address 'geographically isolated problems.' " Zelenak, "Are Rifle Shot Transition Rules and Other Ad Hoc Tax Legislation Constitutional?", 44 *Tax Law Review* 563 (1989).

[29] Ptasynski at 85.

[30] Ptasynski at 85-86.

[31] Ptasynski at 78.

[32] For a discussion of the level of scrutiny to be applied in light of the decision in Ptasynski, see Zelenak, supra, at 590-591.

invalidated under the Uniformity Clause.

To varying degrees, the different tax incentives provided for by the Administration proposal would be tied to high-poverty rate census tracts or the employment of disadvantaged residents of the District. (This is not necessarily the case, however, with the proposed investment credits to be allocated by the EDC, although the EDC would be directed to consider, as one factor, whether the project seeking a credit allocation will benefit a distressed area.) In this regard, the Administration proposal resembles the special tax treatment provided for business activities in areas designated as empowerment zones or enterprise communities under legislation enacted in 1993. The designated empowerment zones and enterprise communities generally are composed of census tracts that satisfy specified poverty and other criteria. To date, the special tax treatment provided for empowerment zones and enterprise communities has not been challenged under the Uniformity Clause.

Providing special tax relief for business activities located in (or with a nexus to) census tracts with high poverty rates can be contrasted to other proposals that would provide an across-the-board income tax reduction for residents of the District.[33] Nonetheless, because the Administration proposal would provide special tax treatment for certain business activities defined in geographic terms, a clear record would have to be made that Congress determined that the preferential treatment to be accorded certain business activities in the District (and not to business activities with ties to similar census tracts located elsewhere) is necessary to address specific unique circumstances existing with respect to the District. The more detailed the record is on these issues, and the stronger the nexus between special tax incentives and economically disadvantaged census tracts and residents, the more likely a court is to give deference to the judgment of Congress in enacting legislation providing preferential treatment for qualifying District business activities. Because the proposed tax incentives contained in the Administration's proposal use different residency and business location tests (with varying ties to high poverty rate census tracts), it is possible that one or more of the tax incentives provided by the Administration proposal could survive challenge under the Uniformity Clause, while one or more other tax incentives could be found by a court to be insufficiently targeted at geographically isolated problems.

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[33] See H.R. 889, introduced by Ms. Norton on February 27, 1997.

IV. REVENUE ANALYSIS

The staff of the Joint Committee on Taxation estimates that the proposal would reduce fiscal year Federal budget receipts by just over $300 million in the ten-year budget period from fiscal year 1998 to fiscal year 2007.

The staff estimates that these tax incentives will result in a loss of approximately $300 million in Federal fiscal year budget receipts in the first five years. Because most of the tax incentives are available only during the first five years, the revenue loss in the second five years is minimal; the proposal in its entirety would lose approximately $325 million over ten years.

The tax proposals attempt to provide incentives both for the start-up and retention of business in the District of Columbia, and for the hiring of lower-income District residents. Several provisions promote the use of tax-exempt financing to lower investment costs for private businesses that are deemed to be desirable additions to the District of Columbia economy, and more start-up capital will be made available by the tax credit for providing loans and equity capital to projects selected by the EDC. To the extent that businesses are generating positive cash flow, increased expensing under section 179 will provide an incentive for investment in equipment, while the wage credits for people who work anywhere in the District but who live only in certain parts of the District is likely to favor the hiring of certain District residents by local firms. In general, these tax provisions are modest enough in scope that it is not anticipated that they will result in a major increase in the growth of the economy of the District of Columbia metropolitan area as a whole, although concentrated allocation of the capital incentives by the EDC could result in significant revitalization of targeted areas within the District.

Currently, several restrictions in the laws governing the authority of the District of Columbia government to issue debt have inhibited the issuance of private activity bonds to provide financing within the District. The removal of these obstacles and the creation of a new category of private activity bond should enable the District to make substantial use of its private activity bond volume cap within four or five years after enactment of these changes. These private activity bonds will provide a cheaper source of funds for both "start-ups" and business expansions within the District, as will the start-up capital generated by the proposed tax credits. These incentives have the potential to serve as a significant economic development tool. The Joint Committee staff's revenue estimate assumes that the EDC will allocate the full $95 million of proposed investment tax credits by the end of the five-year allocation period, and that most of the credits would be allocated in the third and fourth years after the EDC is created.

The location-specific nature of the additional section 179 expensing and tax-exempt financing benefits should encourage more business development within the favored areas (i.e., census tracts with poverty rates of 15 percent or more) than outside such areas. The criterion that an eligible census tract is one with at least 15 percent poverty allows for the inclusion of some already thriving pockets within the favored areas. Thus, it is unclear whether the business-location tests would directly benefit those areas of the District of Columbia that are most in need of assistance, except to the extent that the overall District tax base is enhanced by tax-subsidized projects. However, there is no guarantee that projects favored by these incentives would not have located elsewhere in the District of Columbia without the incentives. In fact, it is likely that a significant portion of them would fall into this category.

The Joint Committee staff's revenue estimate also assumes that there is likely to be some confusion about the exact boundaries of eligible areas, the residency of particular employees, and the work-location requirements that will result in some ineligible businesses claiming the expensing and/or wage credits. For example, two otherwise identical businesses on opposite sides of a street bordering an eligible tract would face substantially different tax liabilities. Because they both have the same street and zip code in their addresses, it will be difficult for the Internal Revenue Service to monitor compliance with the business activity location and employee residency tests. This problem is not unique to the District of Columbia tax incentives; it exists with any sub-city location incentive.

The staff of the Joint Committee on Taxation is currently engaged in a study of the feasibility of including these macroeconomic effects in its revenue estimates. However, it is likely that any net economic growth and increased tax revenues resulting from the tax incentives would be quite small relative to the relocation effects of this proposal. The location-based nature of this proposal creates opportunities both for intensified economic development within the favored location in lieu of some other location. Therefore, increases in taxable income in the District of Columbia resulting from these behavioral responses would not be expected to be replicated in a nationwide application of this proposal.

ESTIMATED REVENUE EFFECTS OF THE PRESIDENT'S TAX PROPOSALS FOR THE DISTRICT OF COLUMBIA

Fiscal Years 1998 - 2007

[Billions of Dollars]

Provision	Effective	1998	1999	2000	2001	2002	1998-02	1998-07
The President's Tax Proposals For The District of Columbia	DOE	[1]	-0.1	-0.1	-0.1	-0.1	-0.3	-0.3

Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.

Legend for "Effective" column: DOE = date of enactment

[1] Loss of less than $50 million.

Mr. DAVIS. Ken, thank you very much.

What has been the experience with enterprise zones, in your judgment, around the country? Are they showing more success? I mean, a couple of years ago, I looked at it, when I was head of the county government in Fairfax, and really there was very limited success because, generally, the areas that were targeted had so many other problems that tax incentives alone couldn't make up, if you will, the investment deficit that would cause people to put private capital into them.

Mr. KIES. Mr. Chairman, the recent experience with the empowerment zones, which provide the most significant tax benefits, and in particular the key tax benefit that is provided in the case of empowerment zones is a permanent wage credit that goes to all employees located within the empowerment zone—and it does not only go to the first year of wages, but rather it applies to each year that the business employs people within the empowerment zone area—has proven, at least in recent experience, to be rather effective at getting new investment.

For example, in the city of Detroit, in the empowerment zone created there, Chrysler chose to build a plant in that empowerment zone, and that decision was largely a consequence of the wage credit.

Mr. DAVIS. A wage credit, basically, to a company means you're paying less dollars in wages than you would have to pay otherwise.

Mr. KIES. That's exactly correct. And the distinction between the wage credit in the empowerment zone proposals versus the one in the proposal of the administration for the District is that that wage credit applies each year, to each employee, as compared to the District proposal, which would only apply to an employee for the first year of employment. And that's a significant distinction.

Mr. DAVIS. When you're making a long-term capital investment, it doesn't really help.

Mr. KIES. Exactly.

Mr. DAVIS. I appreciate it. Let me ask you this: For the amount of money that is called for in the administration's package for economic development, do you think there are better ways—and I gather from your testimony that you think it can be done more efficiently and that there is a way you can get more economic bang for the dollar.

Mr. KIES. Well, Mr. Chairman, I would say that the $95 million of credits that the development corporation will have the ability to distribute, those credits, assuming that the development corporation exercises good judgment in how those are allocated, could produce some fairly significant results, because they could be targeted and given to entities that are going to put other capital in.

So that probably offers the greatest potential for a good return, in terms of the tax dollars invested.

Mr. DAVIS. But the key is, how is that allocated; is it done on a favored basis?

Mr. KIES. The Economic Development Corp. has a series of criteria that they are supposed to take into account in exercising that judgment.

The wage credit is the one that we probably would identify as raising probably some serious problems, in terms of its efficacy, because of the fact that, for example, it's only for 1 year, but in addition, the employer, when they hire the individuals, will not know whether any of the wages paid will qualify for the credit until the entire first year of employment is completed.

Mr. DAVIS. So how would you make a decision?

Mr. KIES. That's the problem. Because if the individual violates the residency test at any time during the year, they lose the entire credit. That's, I think, a problem that really needs to be looked at carefully.

Mr. DAVIS. Have you looked at the Southeast Federal Center or the area around the Navy Yard at all? Are you familiar with that at all?

Mr. KIES. I'm familiar, generally, with the area.

Mr. DAVIS. It would seem to me, with the additional governmental expenditure that will be going there, with new offices and so on, that some creative urban planners could look at that and provide appropriate incentives, to make that attractive. It seems to me, if there was ever the opportunity for an empowerment zone to work, it's right there where you have a critical mass to begin with. Any thoughts on that?

Mr. KIES. Well, that's certainly correct, Mr. Chairman. The Economic Development Corp., in choosing how to allocate its tax credits, should probably take those kinds of criteria into account. The probability of success is certainly going to be related to what is already there, in terms of the investments that they help to incentivize through how they hand out the tax credits.

Mr. DAVIS. Finally, on a philosophical basis, are you better off with empowerment zones, or are you just better off essentially picking areas, picking business winners and losers ahead of time by who qualifies for a special tax credit; in other words, Government picking winners?

Or are you better off letting the marketplace pick them and using those dollars to lower the economic, tax, and regulatory burden for everybody?

Mr. KIES. Mr. Chairman, I think you have correctly identified it as a philosophical question on which there is great debate. The tradeoffs are that the more targeted the delivery of the incentive, the greater the ability to try and pick the projects that have the greatest probability of success. On the other hand, that is picking winners and losers.

Mr. DAVIS. It's also assuming that Government somehow knows more than the marketplace in picking those, and the track record is very mixed on that, I would submit.

Mr. KIES. That is clearly one of the concerns that people try and wrestle with in choosing which of these two directions to go in.

Mr. DAVIS. I understand. And I think there is merit on both sides. With the economy in this region as complex as it is, government-driven in some cases, building and development-driven in others, technology-driven, and telecommunications-driven, particularly in the suburbs, where the city's niche is with its employment base, it's more complex. What the tourism business can bring, international business; what is the mix? What is the city's role in that?

There is, I think, an honest debate over what is the best way to go. I have studied this and talked to experts. If we bring down the regulatory burden, allowing the market to pick that, sometimes we learn things that we wouldn't know just trying to analyze the data.

Mr. KIES. Mr. Chairman, I would just say that one of the points we made in our written testimony is that these tax incentives alone, on their own, would probably not do much, that it has to really be part of a much bigger picture, including many of the things the administration already has in their proposal. I think the regulatory burden is a very significant component of that.

Mr. DAVIS. Well, thank you. I would just say, as with Mr. Barr, we look forward to working with you. We appreciate your being here. I know of the Speaker's interest. I know of Chairman Archer's interest in this. We know that there is a reservation in the budget agreement for some tax incentives. We just want to make sure since these are taxpayer dollars, essentially, and it has an impact on the budget that we're getting the most bang for the dollar that we can for it.

Thank you very much.

I now recognize my vice chairman of this subcommittee, Mrs. Morella.

Mrs. MORELLA. Thank you.

Thank you for your analysis, too. I may want to get back to you at some point later, after I digest more of the ramifications with regard to questioning.

One of the serious disincentives that appears in the District of Columbia to business is the regulatory nightmare that has been put in place over the last 20 years, and the fact that many of the personnel in these agencies appear to be undertrained or simply not qualified for the job in some way.

I just wonder, do you see a role for Congress in trying to remedy both the regulatory nightmare and to make sure that there is training which brings about efficiency and streamlining?

Mr. KIES. Well, as I understand part of the overall project to do a complete revitalization project for the District, one of the areas that will be focused on is how do these regulatory burdens get eased so businesses can more efficiently operate in the District.

I would think that, particularly your committee, as you would put together your overall plan, that's a key area that Congress ought to try and see what can be done to try and ease that, because that apparently is a substantial concern of businesses trying to come into the District.

Mrs. MORELLA. Would it be considered micromanaging if we looked at, like, performance measures or standards? Is that the role of Congress, as you see it, in terms of bringing about this desirable result?

Mr. KIES. Well, I mean, I think those are the kinds of tradeoffs you're going to have to think about. The bottom line is that I think you're going to want to ensure as much regulatory flexibility as possible so businesses have a better environment.

Mrs. MORELLA. At any rate, even though you say this is not really your jurisdiction, you do see this as a major problem?

Mr. KIES. I see it as a major problem, because tax incentives won't work if there are these regulatory burdens.

Mrs. MORELLA. Absolutely. Absolutely. And if we're not using people power, you know, adequately.

You had a brief discussion about the enterprise zone and the EDC. The enterprise zone is something that is spotty. I mean, an area is chosen for that. The EDC would cover everything and would set up a board for that.

Mr. KIES. Correct. And that's why the EDC perhaps offers the greatest potential for producing some significant economic development in the District, because they do have the flexibility as to how they use these tax credits.

And one of the requirements is that, for every dollar of tax credit that is provided to an investor in the District, there has to be a substantial amount of money also being put up by the investor. So it has a multiple effect to it, in terms of the potential for economic investment, almost as much as $400 million worth that could occur through the use of these credits.

Mrs. MORELLA. From your point of view and perspective, and as an expert, do you think that these tax benefits in the President's plan can enhance the District's competitive position in retaining and attracting jobs across the economic spectrum?

Mr. KIES. I think we believe that the credits that the development corporation has offer a good potential there. I think the wage credit has some significant problems associated with it because of its temporary nature and some of the complexities associated with qualifying for it. So I think that's an area where the Congress is going to want to look carefully in maybe trying to shape that, if that's going to be part of the tax package that is provided to the District.

Mrs. MORELLA. I want to thank you very much, Mr. Kies.

Thank you, Mr. Chairman. I yield back.

Mr. DAVIS. Mr. Kies, thank you very much. We look forward to working with you.

Mr. KIES. Thank you, Mr. Chairman.

Mr. DAVIS. I now call our next panel which will consist of Mayor Marion Barry, Council Chair Pro Tem Linda Cropp, and Councilmember Charlene Drew Jarvis.

As you know, it's the policy of the committee that all witnesses be sworn before they may testify.

Linda, congratulations on your new position.

Charlene, good to have you back again.

If you would all just join with me and raise your right hands.

[Witnesses sworn.]

Mr. DAVIS. I am going to ask unanimous consent that any written statements be made part of the permanent record. As I have requested of the previous witnesses, if you would limit your oral statements to no more than 5 minutes, in order to leave time for questions.

I am going to ask the Mayor to testify first, followed by Council Chair Pro Tem Cropp, and then Councilmember Jarvis.

Mayor, thank you, and welcome.

Mr. BARRY. Good morning, Mr. Chairman and Mrs. Morella.

Mr. DAVIS. Let me just announce that we have visiting second and third-grade students from the Owl School, a private school, here in the District of Columbia, studying citizenship. We welcome you all today. As you look around here you will see the city leadership, the Mayor, the Council Chairman, and Charlene Drew Jarvis, a member of the District of Columbia City Council. We welcome your being with us today.

Mrs. MORELLA. And as you know, Mr. Chairman, the owls are wise young people.

Mr. DAVIS. And they give a hoot; right? OK. [Laughter.]

Mr. BARRY. Everybody is sharp this morning.

STATEMENTS OF MARION S. BARRY, MAYOR, DISTRICT OF COLUMBIA; LINDA CROPP, CHAIRWOMAN PRO TEM, DISTRICT OF COLUMBIA CITY COUNCIL; AND CHARLENE DREW JARVIS, MEMBER, DISTRICT OF COLUMBIA CITY COUNCIL

Mr. BARRY. Thank you, Mr. Chairman.

I was talking with some of the young people. One young man asked me, "What are you all doing in here?" I said, "We're discussing President Clinton's plan to help the District." He said, "Oh. Will it work?"

Mr. Chairman, let me express, I am pleased to appear before you today to offer comments on the Economic Development Section of President Clinton's National Capital Revitalization Plan. I would like to ask that my entire statement be entered into the record. I have some other documents I want to enter at the proper time.

Mr. Chairman, in early 1995, when we were wrestling with the financial crisis of our city, it was generally agreed that we ought to take a three-pronged approach, that we ought to drastically restructure and downsize the city government, make the government more efficient, more effective, more responsive to our citizens, our visitors, and to our business people.

The second leg of that was that we should seek to transfer certain State functions to the Federal Government. Additionally, we also talked about increased Federal payment. The third part of that was to improve the District's services, but that we would figure out ways to assist in economic growth for the District.

Quite frankly, what has happened over the last 2½ years has been an obsession with just the first area: How do you reduce the size of the DC government? How do you make it more responsive, et cetera? Until President Clinton submitted his plan to transfer certain State functions, there was no discussion about that by the Congress or by the control board.

And there was virtually nothing done in the third area. The District's budget didn't reflect any extra money for economic growth, in terms of job training, or business retention, or business attraction, et cetera. So I am glad that we finally have decided to discuss the second point and the third, and President Clinton's proposal deals with the second.

Also, Mr. Chairman, I think we have done our share of trying to restructure the DC government, reducing expenditures, reducing the size of the work force. Anytime a municipality or a State or county can reduce its work force by almost 20, 25 percent in a year and a half, it's phenomenal. From 47,000 FTEs down to 33,000 in a year and a half is phenomenal.

In fact, I was talking to Mayor Rendell, he couldn't believe it. He thought it was just incredible that we have been able to do that, and restructure our government, and establish a privatization plan which has saved us money in our correctional facilities, Oak Hill, et cetera.

If you look at my statement, we could go right on down the line as to the kinds of sacrifices and the kinds of commitments the DC government has made, its Council and its Mayor, to make the government more efficient, to make it more effective.

And we have suffered—I have suffered the political consequences of that, because I've had to make some very unpopular decisions, which means that people not only didn't like the message, they didn't like the messenger. But we've done that in order to take the first part of this. I would urge you to look at all the kinds of things that we have done.

And then we know what the other parts of the President's plan are; they have been discussed. But let me discuss, Mr. Chairman, a little bit about the District of Columbia, economically.

I would like to enter into the record a document which says, "Creating an Economic Development Strategy for the District of Columbia." This was done by McKinsey and Co. for the DC Agenda. I would like to ask that this be entered into the record.

Mr. DAVIS. Without objection, that will be entered in the record.

[The information referred to follows:]

Creating an Economic Development Strategy for the District of Columbia

DC AGENDA

Strategy discussion document

April 1997

In March 1997, the DC Agenda asked McKinsey & Company to offer a framework for analyzing the various proposals that have been put forward for economic development in the District of Columbia. To that end, we have conducted a range of analyses and interviews over the last 4 weeks.

CREATING AN ECONOMIC DEVELOPMENT STRATEGY FOR THE DISTRICT OF COLUMBIA

Objective

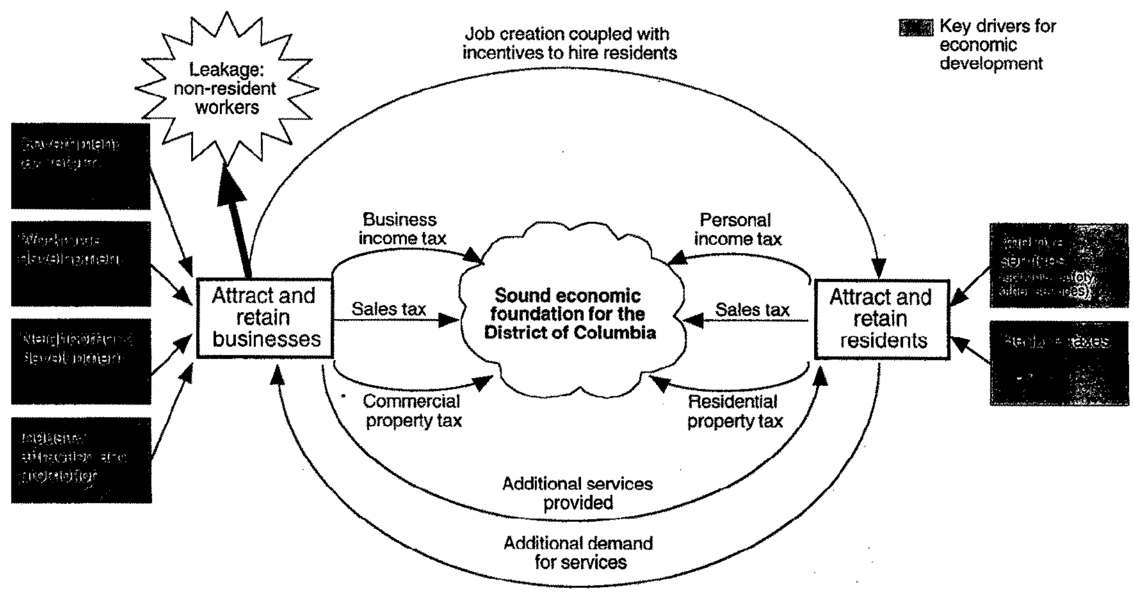
To offer a framework for analyzing the various proposals for economic development for the District of Columbia

Major actions

- Analysis of the most important factors for economic development
- Examination of the DC budget under the current situation and after implementation of the Clinton Plan
- Analysis of the Clinton Plan and DC Agenda proposals in light of budget constraints and the key issues for economic development

Before discussing our major findings, we want to briefly review the basic beliefs about economic development upon which our work is premised. First, we believe six key drivers must be in place to stimulate economic development and that "leakage" must be minimized.

ECONOMIC DEVELOPMENT STRATEGIES FOR THE DISTRICT OF COLUMBIA



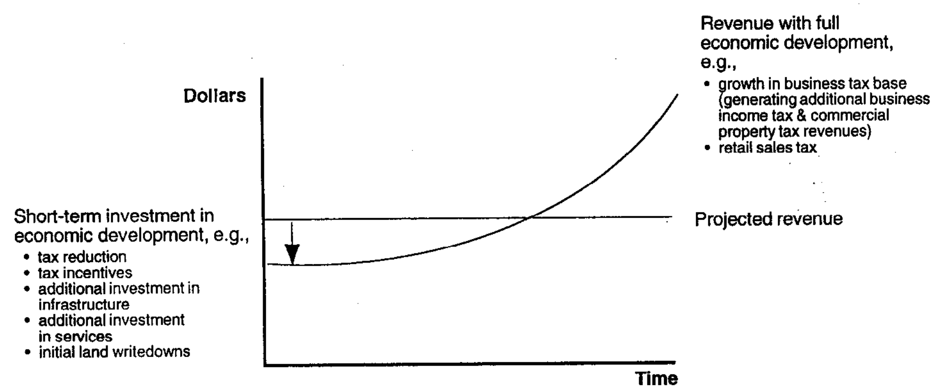
These key drivers of economic development are evident in successful projects in major cities throughout the country.

DRIVERS OF ECONOMIC DEVELOPMENT

Key driver	Actions	Examples
• Attract & retain businesses		
– Government action	• Reduce taxes, especially – Commercial property tax – Unemployment benefits – Workers' compensation • Provide tax incentives • Streamline regulatory process • Improve tax collection	Rebuild Los Angeles, Dayton Partnership
– Workforce development	• Reskill the workforce to meet employer needs • Provide links between employers & workers • Streamline job training & placement programs • Improve public education	New York Workforce, Cleveland Works, Rebuild Los Angeles
– Neighborhood revitalization/local ownership	• Provide tax incentives for businesses in targeted neighborhoods	Atlanta Project, Chicago South Shore Bank, Downtown Dayton Partnership, Rebuild Los Angeles
– Industry attraction and promotion	• Provide tax incentives to targeted industries • Provide tax credits for hiring local residents	Miami 2000 Project, Rebuild Los Angeles
• Attract & retain residents		
– Lower taxes	• Reduce income taxes • Reduce residential property taxes	
– Improve services	• Lower crime rates • Improve public schools	Dayton Partnership Cleveland Tomorrow
• Other		
– Engage business leadership	• Create active partnerships with key business leaders to ensure involvement and accountability	Greater Baltimore Partnership, Cleveland Tomorrow, Miami 2000 Project, New York City Partnership
– Mitigate tax "leakage"	• Encourage businesses to hire local residents • Enact commuter tax	

Second, investments in economic development can yield substantial long term rewards, but will depress revenue in the short term because benefits lag initial investments.

SHORT-TERM INVESTMENTS AND LONG-TERM REWARDS *ILLUSTRATIVE*



Based on our work of the last 4 weeks, we have concluded that Clinton's Economic Development Corporation (EDC) coupled with the DC Agenda proposals represent a good start but that more needs to be done to ensure a strong economic foundation for the District of Columbia.

BUILDING ON A GOOD START

- While the Clinton EDC combined with the work of DC Agenda can provide a powerful program for DC economic development, more needs to be done particularly on the critical issue of local tax reform
- In addition, the other elements of the Clinton Plan result in a continued, albeit smaller, budget deficit when applied to current DC financial projections. This deficit complicates execution of an economic development plan (e.g., reduces the amount of money available for improving services) and makes it virtually impossible to enact needed local tax reform
- Therefore, DC should take three steps to execute and supplement current proposals:
  - Accept the Clinton plan as a starting point
  - Finalize and execute the economic development strategy, putting in place a rigorous process for ensuring that individual proposals are consistent with the strategy
  - Continue to address the structural problems that lead to the District's unsound financial situation; the DC government must continue to cut expenditures and improve efficiency (while achieving improvements in service levels) and should continue discussions with the federal government on options for providing payments or assuming additional "state" services

EFFORTS REPRESENT GOOD START BUT ƆRE NEEDED ON TAX REFORM

While the Clinton Economic Development Corporation combined with the DC Agenda proposals can provide a powerful program for DC economic development, neither program addresses the critical issue of tax reform.

ASSESSMENT OF CLINTON EDC AND DC AGENDA PROPOSALS

Legend: ○ Not addressed; ◔ Mentioned; ◑ Partially addressed; ◕ Largely addressed; ● Fully addressed

Drivers of economic development	Assessment criteria	Clinton	DC Agenda
• **Attract & retain businesses**	**Does the plan:**		
– Government action	Correct differential in business taxes between the District and MD and VA and/or streamline DC regulations?	○	◔
– Workforce development	Attempt to re-skill the workforce?	◑	◕
– Neighborhood revitalization/ local ownership	Provide incentives to invest in targeted neighborhoods?	●	●
– Industry promotion/job creation	Provide incentives for targeted industries and/or provide incentives for businesses to hire DC residents?	●	●
• **Attract & retain residents**			
– Reduce taxes	Lower taxes for residents?	○	○
– Improve services	Improve services (roads, schools, safety, & other services)?	◑	◕
• **Other**			
– Engage business leadership	Create partnership with the business community?	◑	●
– Mitigate tax "leakage"	Tax non-resident workers and/or create incentives to hire residents rather than non-resident workers?	◑	◔

Major gaps

The Clinton Plan contains actionable steps for many of the key drivers for economic development.

ASSESSMENT OF CLINTON EDC

Driver		Proposal	Comment
• Attract & retain businesses			
– Government action	○	• Not addressed	• Only District can enact certain tax and regulatory reforms
– Workforce development	◐	• $20 million initial capitalization of EDC encourages non-profit organization job training programs	
– Neighborhood revitalization/local ownership	●	• DC Capital Credit encourages businesses to locate in disinvested neighborhoods • EDC can issue private activity bonds to finance businesses in distressed areas • Tax benefits of additional expensing encourage small businesses to invest in poor areas	• Program provides incentives for businesses to invest in distressed neighborhoods: – DC Capital Credit: $95 million in tax credits – Private Activity Bonds: $2 million – Additional Expensing Benefits: $20 million
– Industry promotion/job creation	●	• DC Capital Credit promotes selected industries • DC Jobs Credit encourages businesses to hire residents	• Program provides incentives both for attracting targeted industries and for encouraging businesses to hire DC residents: – DC Capital Credit: $95 million in tax credits – DC Jobs Credit: $133 million in tax credits
• Attract & retain residents			
– Reduce taxes	○	• Not addressed	• Only District can enact certain tax reforms
– Improve services	◐	• Selected services (e.g., roads, courts, prisons) would improve if federal government can provide them more effectively	• Vital services such as public education and police protection are not addressed by the Clinton plan
• Other			
– Engage business leadership	◐	• Majority of EDC Board members will come from private sector	• It remains unclear whether the White House envisages a full partnership with business
– Mitigate "leakage"	◐	• Plan does not propose a tax on commuters, but it does encourage businesses to hire local residents	• Non-resident workers who do not pay District income or property taxes are the most important source of "leakage"

DC Agenda proposals contain actionable steps for most of the key drivers for economic development.

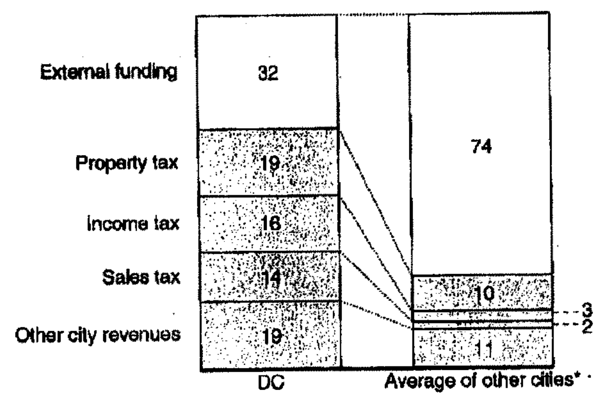
ASSESSMENT OF DC AGENDA PROPOSALS

Driver:		Proposal	Comment
• Attract & retain businesses			
– Government action	◔	• Reform taxes • Streamline regulatory process • Review land use regulations and controls • Change perception that DC government holds businesses in "disdain"	• Only District government can enact certain tax, regulatory and zoning reforms; DC Agenda nevertheless recommends crucial steps
– Workforce development	◕	• Provide enhanced educational opportunities	• Agenda recognizes the importance of skilling the workforce, but specific action steps have not yet been developed
– Neighborhood revitalization/ local ownership	●	• Initiate comprehensive legislation to encourage new construction & renovation of deteriorated properties • Support Washington Development Trust in upgrading distressed neighborhoods	• Agenda places high priority on neighborhood revitalization and affords economic development organizations extensive discretionary powers
– Industry promotion/job creation	●	• Initiate legislation to encourage businesses to hire low to moderate skilled workers • Create Business Promotion Corporation • Focus on specific industries by retaining federal agencies, developing the new Convention Center, and encouraging tourism, Interactive Downtown, and the International Cultural & Trade Center • Support Greater Washington Initiative efforts to boost DC image	• Program outlines comprehensive legislation to provide incentives for hiring residents. Agenda also places significant attention on promoting specific industries and enhancing the District of Columbia's image
• Attract & retain residents			
– Reduce taxes	○	• Not addressed	• Only District government can enact certain tax reforms
– Improve services	◕	• Spearhead efforts for safe and clean living environment, revitalised neighborhoods, enhanced educational opportunities and the elimination of concentrations of poverty	• Agenda recognizes the importance of improving services, but specific action steps have not yet been developed
• Other			
– Engage business leadership	●	• Forge full partnership with private sector	• Agenda encourages widest possible cooperation with the business community
– Mitigate "leakage"	◔	• While DC Agenda does not propose a commuter tax, plan encourages businesses to hire DC residents	• Non-resident workers who do not pay District income or property taxes are most important source of "leakage"

Neither program addresses tax reform, a particularly critical issue for economic development in the District. Because of the District of Columbia's unique situation, DC relies much more heavily on local businesses and residents for its revenue than other cities do.

REVENUE SOURCES FOR COMPARABLE ACTIVITIES, 1993

Percent



* Other cities = Baltimore, Boston, Cleveland and Seattle

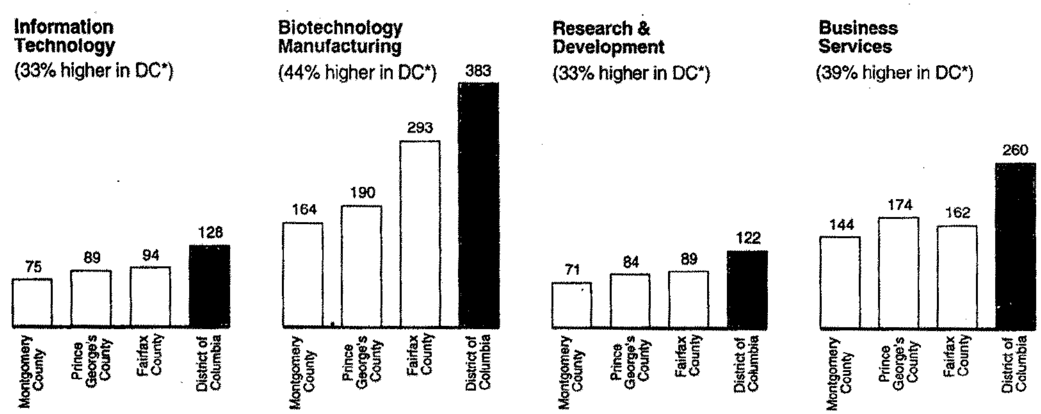
Source: 1994 McKinsey Report, Exhibit 7

1

DC's dependence on local residents and businesses for the bulk of its revenue has translated into higher tax burdens on DC businesses compared to identical businesses located in neighboring jurisdictions.

TOTAL TAX LIABILITY FOR THE SAME HYPOTHETICAL COMPANY IN SELECTED INDUSTRIES

$ Thousands



* Compared to average of surorunding jurisdictions

Source: Coopers & Lybrand, Greater Washington 1996 Comparative Tax Report, July 1996. This study provides an indication of total tax liability facing the same hypothetical corporation for several industries depending on location. Included in total tax liability are: business income taxes, sales and use taxes, business personal property taxes, real property taxes, unemployment insurance, workers' compensation and utility taxes. For a full description of each of the hypothetical companies, see section 6 of the Coopers & Lybrand report.

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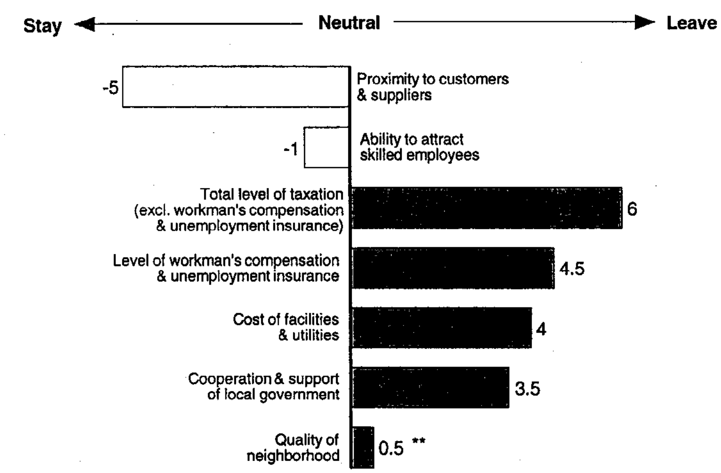
High levels of taxation, workman's compensation and unemployment insurance are key factors influencing businesses to leave the District. Two other important drivers are costs of facilities (which are, in turn, influenced by commercial property taxes) and lack of cooperation and support from the DC government.

FACTORS INFLUENCING BUSINESSES TO STAY IN OR LEAVE THE DISTRICT*

Scale of -10 to +10



* Mean response to a survey for the Center for the Advancement of Small Business; questionnaires were sent to 790 DC businesses, 184 (24%) of whom responded. Information from the surveys was supplemented by interviews with 13 businesses that had left DC and 10 new arrivals

** Composite mean masks differences in responses by zipcode; zip codes 20006, 20007, 20008, 20015, 20016 are much more positive than the remainder of DC, which was statistically similar

Source: Stephen Perry, Factors which influence businesses to stay in or leave the District of Columbia, August, 1994.

DEFICIT COMPLICATES LOCAL TAX REFORM, EXECUTION

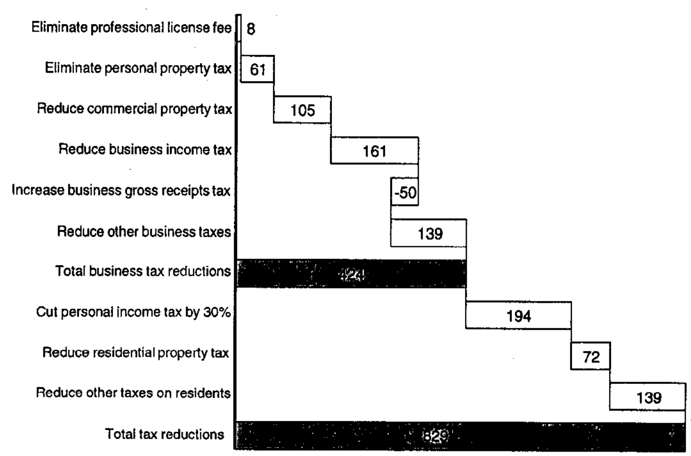
The other elements of the Clinton Plan, applied to current DC financial projections, result in continued budget deficits that make it virtually impossible for the District to enact needed tax reform; these continuing deficits could also impair the execution of the other pieces of the economic development program.

DEFICIT COMPLICATES EXECUTION OF ECONOMIC DEVELOPMENT PROGRAM

- Initial cost of comprehensive local tax reform is substantial
- While Clinton Plan reduces projected budget deficits, it does not eliminate them

The initial cost of tax reform to make DC's tax structure comparable to neighboring jurisdictions is an estimated $424 million in foregone business tax revenue and $829 million in total foregone tax revenue from both businesses and residents (1995).

INITIAL (YEAR 1) FOREGONE REVENUE FROM COMPREHENSIVE TAX REFORM
$ Millions



Source: O'Cleireacain, The Orphaned Capital, 11.

The most likely scenarios given the current budget situation result in substantial long-term budget deficits.

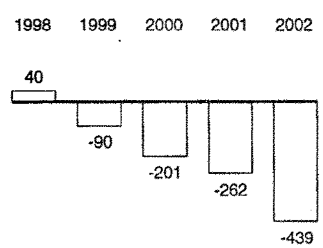
PROJECTED DC BUDGET DEFICIT/SURPLUS FOR BASE CASE SCENARIOS *PRELIMINARY*

OMB projections*

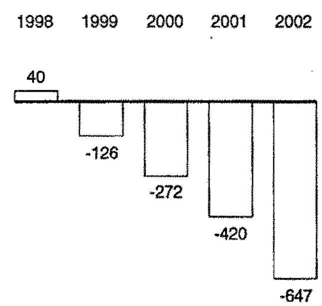
$ Millions

Most likely scenarios

OMB Base Case 1:
Current Medicaid Cost Growth
(CAGR: 8%)

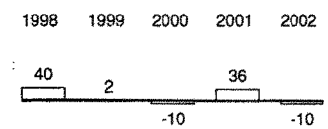


OMB Base Case 2:
Medicaid Cost Growth (8%)
+ 3% Expenditure Growth



Least likely scenario

OMB Base Case 3:
Medicaid Cost Freeze
(CAGR: 0%)



* OMB projections assume that the District will pay the unfunded pension liability costs and 50% of Medicaid costs

Under the most likely scenarios, the various components of the Clinton Plan, applied to current DC financial projections, result in a continued, albeit smaller, budget deficit. This budget deficit nevertheless makes it impossible for DC to fund the needed tax reform. Only in 1998 do we see budget surpluses, and they represent barely 10 percent of the amount needed to enact comprehensive business and residential tax reform.

PROJECTED DC BUDGET SURPLUS/DEFICIT WITH THE CLINTON PLAN *PRELIMINARY*

OMB projections*

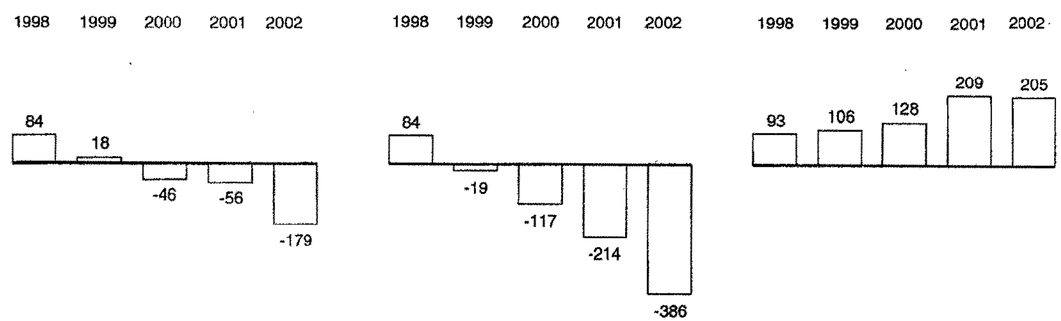
$ Millions

Most likely scenarios — **Least likely scenario**

Case 1: Current Medicaid Cost Growth (CAGR: 8%)

Case 2: Medicaid Cost Growth (8%) + 3% Growth in Other Expenditures

Case 3: Medicaid Cost Freeze** (CAGR: 0%)



* Projected budget surplus/deficit is calculated by applying OMB estimated impact of Clinton plan (pension and services transfer vs. lost federal payments) to base case predictions. The impact of economic development has not been incorporated. Estimates for 2002 are McKinsey projections based on OMB data.

** Estimates for DC budget surpluses under Case 3: Medicaid Cost Freeze are adjusted from OMB projections; in our analysis, estimated Medicaid savings to the District are consistent with the projected freeze in Medicaid costs.

DC-DCO585/970403DtsHR1

DC SHOULD TAKE STEPS TO EXECUTE AND SUPPLEMENT CURRENT PROPOSALS

Given the importance of all key drivers of economic development, DC should take three steps to execute and supplement current proposals.

THREE STEPS TO EXECUTE AND SUPPLEMENT CURRENT PROPOSALS

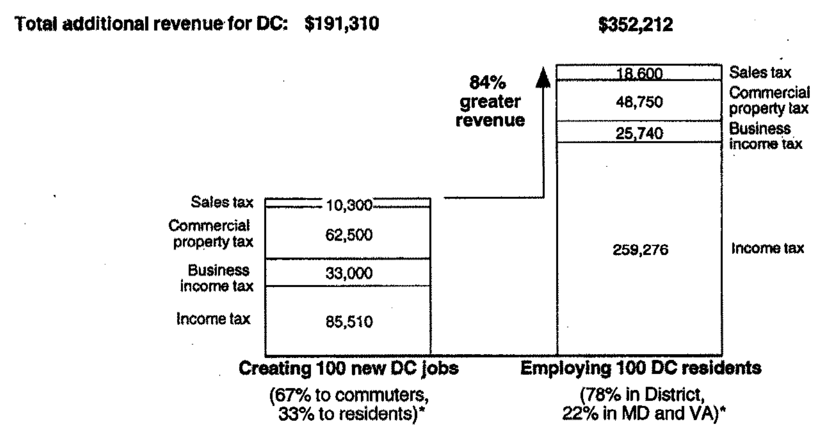
Step	Action	Comments
Accept the Clinton Plan as a starting point		• Clinton Plan improves DC's current financial situation and provides a good start on building a sound economic foundation
Finalize and execute economic development strategy and plan*	Develop and apply rigorous decision-making process	• A detailed strategy that prioritizes which businesses and residents to attract and minimizes leakage is needed to guide individual decisions • A rigorous process for making specific decisions on economic development proposals is needed to ensure execution is consistent with strategy and has maximum impact
	Execute proposals and develop new ones as needed	• Many economic development proposals are currently underway or have sufficient funding to begin in the near future; DC should ensure timely execution so that benefits can be realized as soon as possible
Continue to address structural problems that lead to an unsound financial situation	Cut additional expenditures and increase tax collections	• Deficits limit DC's ability to enhance the city's economic prospects (e.g., further improving services, enacting tax reductions) • An aggressive city-wide cost reduction program is required, but service levels must simultaneously be improved • Improving tax collection can generate additional revenues without increasing tax rates
	Explore options for additional federal governement actions	• Federal government could assume additional state services or provide state-like payments to make DC's financial position more like that of other cities

* DC Agenda is providing an overall strategic framework and plan

Due to DC's inability to tax commuters and the "leakage" problem it causes, the city receives a greater benefit from employing 100 DC residents than creating 100 new DC jobs (which historically go to MD/VA residents). Thus DC can minimize leakage/maximize impact by developing its workforce, promoting industries, including those needing workers that match DC's skill base, and providing incentives for employers to hire DC residents.

IMPACT OF CREATING 100 NEW JOBS VS. EMPLOYING 100 DC RESIDENTS

PRELIMINARY



* Percent of DC residents who currently work in District (78%) from O'Cleireacain, The Orphaned Capital, 107
Percent of DC workers who do not reside in District (67%) from 1994 McKinsey report

** McKinsey analysis based on data from O'Cleireacain, The Orphaned Capital, Economic Trends in Metropolitan Washington, 1991-1995, 1994 McKinsey report

Given the potential impact of developing its workforce, the District should investigate coordinated job training programs, like the New York City Workforce Development Project, that work closely with the private sector in upgrading the skill base of the local workforce and more effectively linking employers and workers.

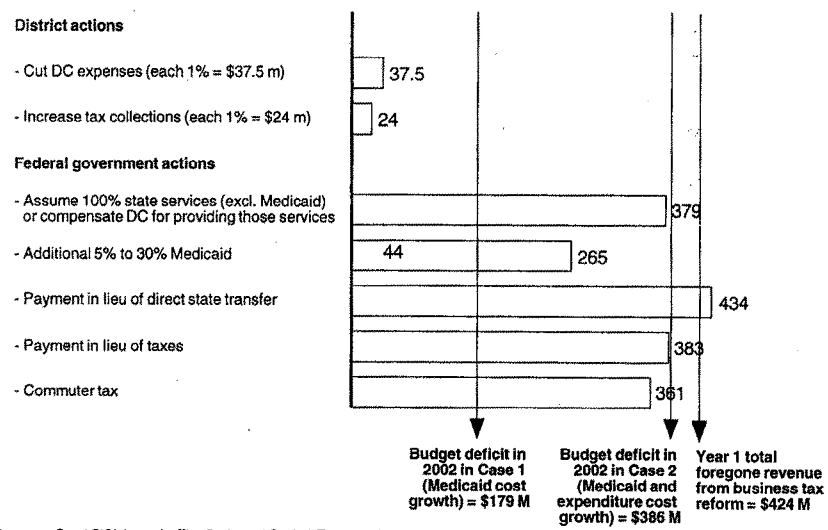
KEY FACETS OF NEW YORK CITY WORKFORCE DEVELOPMENT PROJECT

- Establishment of a nonprofit Labor Market Resource Center to analyze the composition of the local workforce and employer needs
- Design of a Work Skills Assessment with the private sector to identify key skills that businesses require. The Work Skills Assessment would then be used by employers, counselors, and educators in evaluating individuals' readiness for employment
- Formation of a Skills Development Consortium (SDC) to upgrade the skills of the city's entry-level workforce by assessing candidates' skills, developing training programs to meet employer needs, choosing educators accordingly and implementing rigorous performance measures
- Creation of a network of community-based One-Stop Career Centers that will serve as single points of access for residents to publicly funded education, training and placement services. These centers would also serve as a citywide job placement and sourcing network for employers
- Consolidation and reform of public adult education programs to better meet the needs of the labor market, particularly through teaching competitive skills for jobs that actually exist and implementing rigorous program quality standards and performance measures

Source: New York City Workforce Development Commission, The New Workforce: Investing in New York City's Competitiveness

Principal options for eliminating the budget deficit and financing tax reduction and other economic development programs include reducing District expenses, increasing District tax collections and increasing federal government payments and/or assumption of "state" services.

OPTIONS FOR ELIMINATING DEFICIT, FUNDING TAX REFORM
$ Millions



Source: Carol O'Cleireacain, The Orphaned Capital; Team analysis

Mr. BARRY. Let's talk about our city. We are landlocked. Unlike Charlotte, unlike Nashville and Memphis, we cannot annex property, which means that, in some cities, when people flee from the city into the suburbs, the cities merely annex that part of the suburbs and therefore equalize the situation. But Baltimore and Philadelphia and New York, and other cities, are suffering the same plight, losing population. We're not unique in that regard, but we cannot annex.

Second, we have a situation where 56 percent of the land is owned by someone else besides the DC taxpayers; 41 percent by the Federal Government, the other by nonprofit organizations and parks, et cetera, which means, from a taxing perspective, we can only tax, either through residents or businesses, 41 percent of the land. Now, that's a disadvantage.

Third, the District is noncompetitive with our neighbors. We're not competitive because our commercial property taxes are higher than the neighbors. Our unemployment insurance, our Workers' Compensation, our utilities, and our business corporation taxes are higher.

Why are they higher? They are higher for several reasons. First of all, because we can't tax income at its source, we're subsidizing Maryland and Virginia by $700 million.

We also don't have a fair Federal payment. Even though the Federal Government owns 41 percent of the land, we get about one-third of what we ought to get in lieu of taxes. If we could get our fair share of Federal payment, about $2 billion, and get our share of income tax here, we would have the lowest commercial tax rate in the region. So part of the plan has to be a continued Federal payment.

My own view is that, if we pass the dollar amount of the President's plan—it may have a different structure, particularly in criminal justice—and give us at least almost $400 million of Federal payment, the city government could begin to drastically reduce our commercial property taxes, reduce our business taxes, and other related activities that would make us more competitive.

The Council and the Mayor are in the process now of getting legislation through the Council that will lower the unemployment compensation tax, that will lower the Workers' Comp. comparable to the surrounding areas.

Then there is the area of business reform and regulatory reform. We talk about that, but when you look at the reality, if you look at the MCI Center, it was easy to move in here, to get the necessary permits, and to build this in record time.

The only basic requirement of a business coming into Washington is to file your corporation tax, give a business tax, and that's it. If you talk to developers, they will tell you that it is easier to develop a building in Washington than it is in the suburbs, in terms of regulations.

Now, we need to look at it again, but I don't think regulatory reform is a major impediment when you really talk to people, Congressman Davis, one-on-one, about, what do you mean by that? They are not responsible for a certificate of occupancy. Now, lawyers have to get a business license. Doctors have to get a business license, and others, but that's not true all over.

So I think we need to focus on the Federal payment. We need to focus on the Economic Development Corp. You know what it's all about. I'm not going to spend a lot of time doing that. But that's not enough.

If you look at the McKinsey study, the McKinsey study says that we ought to have a five-pronged approach: We should attract and retain businesses through government action; that is, taxes, lowering taxes, streamlining the regulatory processes, review land use.

Work force development. We need to put more money into skills development, because our schools have not done a good job, and therefore we have to make up for what they did.

Neighborhood revitalization. We put very little money in neighborhood revitalization, either through the Council's budget, the Mayor's budget, or the controller's budget. We have not promoted industry.

The other one is, how do you attract and retain residents? You have to reduce taxes on those of us who are taxed to death in Washington. And we are taxed at the high rate that we are because we are subsidizing the Federal Government and Maryland and Virginia. I support Ms. Norton's approach, the 15 percent flat tax. That's one way you begin to do that.

Also, improve services. Let me say that we are working every day to make our services more efficient, make our government more responsive, and you're seeing results. This time last year, because of our budget problem, our trash trucks were broken down, and we couldn't pick up trash on time. We need 40 trucks every day; we had 29 or 30. We now have 45 trucks every day. Trash is being picked up on time, and our city is looking cleaner and looking better.

We have put police officers on the streets, some 400 of those. We have seen a reduction in crime, 30 percent; in March, the lowest homicide rate in 10 years, for the first quarter. And so we are improving services. Things are getting better, in terms of delivery of services.

The other one is to engage the business leadership. If you go to Baltimore or Fairfax County or other places, you find the business community more involved with the local government than here. Somehow or another, it's been very difficult to get the business community fully engaged. They have been engaged, but not "fully engaged." The Washington Board of Trade has been engaged but not fully engaged. The Chamber of Commerce has been more engaged, because it is more of a local operation.

So I think, with all of that, with the President's plan, Ms. Norton's flat tax, with the DC government improving its delivery of services, which we are doing every day, with neighborhood development being financed and funded, both through the President's plan and the DC government, through work force development training—and finally, Mr. Chairman, one thing that the Federal Government can do and the private sector can do that will give us an immediate shot in the arm, in terms of economic growth, and that is to hire DC residents.

The McKinsey study indicates here that for every 100 DC residents that are hired in existing jobs, as they become vacant, in both Washington and the suburbs, the District government receives about $350,000 of revenue, which means, out of those 60,000 unemployed DC residents, if for next year we could convince the Federal Government—190,000 jobs here—and convince the private sector to put focus on qualified DC residents and hire up to 10,000 residents, that's $35 million of new tax revenue for the District government.

The other part of what makes our taxes so high is that we have a disproportionate share of the region's poor. We are 8 percent of the population; 44 percent of the poor, eating up Medicaid, AFDC, food stamps, $800 million in Medicaid.

So my formula for success is to focus on the second part of the President's plan, transferring State functions, and economic development, Ms. Norton's plan, neighborhood revitalization, and hiring DC residents. The Congress can contribute, starting tomorrow, by asking the architect of the Capitol, whoever makes decisions about hiring around here, to start hiring DC residents. That's a good shot right there.

[The prepared statement of Mr. Barry follows:]

STATEMENT BEFORE THE HOUSE COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA

THE HONORABLE MARION BARRY, JR.

MAYOR

WASHINGTON, D.C.

9:30 A.M.

THURSDAY, MAY 22, 1997

ROOM 2154 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, D.C.

GOOD MORNING CONGRESSMAN DAVIS AND OTHER MEMBERS OF THE SUBCOMMITTEE. I AM PLEASED TO APPEAR BEFORE YOU TODAY TO OFFER COMMENTS ON THE ECONOMIC DEVELOPMENT SECTION OF PRESIDENT CLINTON'S *NATIONAL CAPITAL REVITALIZATION AND SELF-GOVERNMENT IMPROVEMENT PLAN* FOR THE DISTRICT OF COLUMBIA ("PLAN").

I BEGAN THIS TERM WITH A THREE PRONGED STRATEGY FOR BUILDING A DISTRICT OF COLUMBIA ("DISTRICT") WHICH ENSURES THE SAFETY OF ITS CITIZENS AND VISITORS, WHICH IS HOME TO A VIBRANT BUSINESS COMMUNITY, AND IS SUPPORTED BY A RESPONSIBLE AND RESPONSIVE CITY GOVERNMENT. WHEN I STUDIED THE EXPERIENCES OF OTHER MAJOR CITIES OPERATING WITH FINANCIAL CONTROL AUTHORITIES, INCLUDING PHILADELPHIA AND NEY YORK, IT BECAME CLEAR TO ME THAT I ORDER TO IMPROVE THE QUALITY OF LIFE AND FINANCIAL STABILITY OF THE DISTRICT I HAD TO:

> **REDUCE THE SIZE OF GOVERNMENT,**
>
> **TRANSFER CERTAIN DISTRICT GOVERNMENT BASED STATE FUNCTIONS BACK TO THE FEDERAL GOVERNMENT, AND**
>
> **IMPROVE DISTRICT GOVERNMENT SERVICES (THE QUALITY OF LIFE) TO RETAIN AND ATTRACT MIDDLE INCOME FAMILIES AND BUSINESSES - ECONOMIC DEVELOPMENT.**

OVER THE LAST TWO AND ONE HALF YEARS THERE HAS BEEN AN ALMOST OVERWHELMING FOCUS ON RESTORING THE HEALTH OF THE DISTRICT'S ECONOMY SOLELY BY REDUCING THE SIZE OF THE DISTRICT GOVERNMENT'S BUDGET AND ITS WORKFORCE. RESTRUCTURING THE GOVERNMENT'S BUDGET, EXPENDITURES AND ORGANIZATION IS ABSOLUTELY CRITICAL TO THE SUCCESS OF THE NATION'S CAPITAL, BUT WILL NOT BY ITSELF SUSTAIN LONG-TERM FISCAL AND ECONOMIC HEALTH. I KNOW THAT SERVICES MUST IMPROVE, AND THAT FINANCIAL ACCOUNTABILITY AND PRUDENT FISCAL MANAGEMENT PRACTICES MUST BE IMPLEMENTED. HOWEVER, EVEN WHEN WE ACHIEVE THE EFFICIENCIES AND EFFECTIVENESS WE ANTICIPATE, REVENUES WILL FAIL TO KEEP PACE WITH EXPENDITURES OVER THE LONG-TERM.

SINCE BEGINNING THE TRANSFORMATION OF GOVERNMENT ON JANUARY 2, 1995, MY ADMINISTRATION HAS POSTED SIGNIFICANT PROGRESS ON THE FIRST ASPECT OF MY STRATEGY. WE HAVE:

- *REDUCED THE SIZE OF GOVERNMENT*- THE FY95 BUDGET REFLECTED 47,079 FTES CITY-WIDE. THE FY97 ALLOCATION STANDS AT 36,604 FTES,--*A DECREASE OF 10,475 FTES SINCE 1995.* AND, ACCORDING TO OUR MOST RECENT FIGURES, AS OF FEBRUARY 26, 1997, OUR ON BOARD FTES ARE 33,524.[1] THESE FIGURES ARE TRUE, VERIFIED WITH THE INSPECTOR GENERAL, INDEPENDENT AUDITORS, CFO AND THE CONTROL BOARD.
- *DEVELOPED A PRIVATIZATION PLAN TO OUTSOURCE CITY SERVICES FOR GREATER EFFICIENCIES AND COST SAVINGS.* SO FAR, WE HAVE OUTSOURCED THE 898-BED CORRECTIONAL TREATMENT FACILITY, THE EDUCATIONAL ACADEMY AT OAK HILL, FOOD SERVICES FOR THE CORRECTIONAL POPULATION AND THE POLICE AND FIRE CLINIC. WE HAVE ALSO CLOSED D.C. VILLAGE NURSING HOME, HAVING PLACED 256 RESIDENTS IN LONG-TERM CARE FACILITIES.
- <u>ESTABLISHED A PROGRAM OF COMPREHENSIVE HEALTH SERVICES</u> - A DEPARTMENT OF HEALTH HAS BEEN ESTABLISHED TO BETTER FOCUS AND ADMINISTER SERVICES TO OUR PUBLIC; WE HAVE REDUCED MEDICAID EXPENSES BY $80 MILLION IN FY96/97; WE HAVE CREATED A "PUBLIC BENEFIT CORPORATION" AND TRANSFERRED PUBLIC HEALTH CLINICS TO THE CORPORATION FOR MORE COORDINATED AND FOCUSED HEALTH SERVICE DELIVERY.
- <u>RESTRUCTURED HUMAN DEVELOPMENT INITIATIVES</u> - WE HAVE REDUCED AFDC BENEFITS, PRIVATIZED PERSONAL CARE AIDS, REDUCED UNEMPLOYMENT BENEFITS AND WORKERS' COMPENSATION BENEFITS. THIS HAS REQUIRED LEADERSHIP AND TOUGH DECISION MAKING. WE HAVE LITERALLY CUT THE LIFE LINE AND SUPPORT STRUCTURE FOR OUR MOST VULNERABLE RESIDENTS: AIDS PATIENTS, THE HOMELESS AND THE RECOVERING DRUG ADDICT TRYING TO TURN HIS OR HER LIFE AROUND. THE DEPARTMENT OF HUMAN SERVICES HAS LOST 2,000 POSITIONS SINCE 1995. WE HAVE HIT THE WALL ON THE HUMAN SERVICES DELIVERY STRUCTURE AND CAN CUT NO MORE.
- <u>INVESTED MORE IN COMMUNITY POLICING.</u> WE ARE INVESTING MORE IN THE COMMUNITY POLICING MODEL BY RESTRUCTURING POLICE BEATS TO TAKE INTO ACCOUNT NEIGHBORHOOD BOUNDARIES AND DEVELOPING GREATER LINKAGES BETWEEN POLICE TEAMS AND THE NEIGHBORHOODS THEY SERVE, AND WE ARE ASSIGNING MORE POLICE OFFICERS TO THE STREETS THAN EVER BEFORE.
- <u>CREATED AN INDEPENDENT WATER AND SEWER AUTHORITY TO</u>

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[1] Excluding D.C. Housing Authority (831 FTEs), WASA (1142 FTEs), Sports Commission (97 FTES), and D.C. General Hospital (1,753 FTEs).

<u>ENSURE IMPROVED WATER QUALITY.</u> MY ADMINISTRATION HAS IMPLEMENTED THE COUNCIL'S LEGISLATION AND CREATED A BETTER MANAGED, INDEPENDENT WATER AND SEWER AUTHORITY WITH REGIONAL REPRESENTATION TO ENSURE CLEANER DRINKING WATER AND MORE EFFICIENT OPERATIONS. IN FEBRUARY OF THIS YEAR EPA REGION III ADMINISTRATOR, MICHAEL MCCABE, CAME TO THE DISTRICT AND PRAISED THE AUTHORITY FOR THE RAPID IMPROVEMENTS THAT HAVE BEEN MADE SINCE ITS ESTABLISHMENT LAST OCTOBER.

- <u>MOVED FORWARD WITH IMPLEMENTATION OF PERFORMANCED BASED MANAGEMENT AND MEASUREMENT -</u> MY ADMINISTRATION HAS TAKEN A MAJOR STEP IN DEVELOPING A COMPREHENSIVE PERFORMANCE MEASUREMENT SYSTEM FOR THE DISTRICT. THIS SYSTEM WILL ALLOW US TO MONITOR, EVALUATE AND REPORT ON THE EFFECTIVENESS OF PROGRAMS FOR WHICH CORE AGENCIES ARE RESPONSIBLE. THE FINANCIAL AUTHORITY RECENTLY APPROVED A CONTRACT WITH DELOITTE AND TOUCHE WHO WILL ASSIST US WITH DEVELOPING THE INFRASTRUCTURE AND THE CAPACITY TO DEVELOP AND MAINTAIN SUCH A SYSTEM.

IF YOU EXAMINE THE RECORD, YOU WILL SEE THAT WE ARE BUILDING A CULTURE OF ACCOMPLISHMENT AGENCY-BY-AGENCY. WE MAY STUMBLE FROM TIME TO TIME, JUST AS ALL GREAT CITIES DO. TRANSFORMATION IS NOT AN EASY PATH TO TRAVEL, BUT WE ARE MAKING REMARKABLE PROGRESS.

THE PRESIDENT'S PLAN PRESENTS AN EXCELLENT OPPORTUNITY TO ADDRESS THE SECOND ASPECT OF MY STRATEGY - TRANSERRING DISTRICT GOVERNMENT BASED STATE FUNCTIONS BACK TO THE FEDERAL GOVERNMENT, AND REDEFINING THE FEDERAL GOVERNMENT'S RELATIONSHIP TO THE DISTRICT. THE PRESIDENT'S PLAN ALSO FACILITATES ECONOMIC DEVELOPMENT INITIATIVES BEING DEVELOPED AND IMPLEMENTED THROUGH THE EFFORTS OF PRIVATE - PUBLIC PARTNERSHIPS.

<u>THE CLIMATE FOR BUSINESS AND ECONOMIC DEVELOPMENT</u>

THE DISTRICT IS THE CENTER OF A THRIVING METROPOLITAN AREA, HAS A LARGE FEDERAL WORK FORCE, AND IS A MAJOR MAGNET FOR TOURISM AND BUSINESS TRAVEL. WHY HAS THE DISTRICT NOT BENEFITED FROM THE TREMENDOUS REGIONAL GROWTH WHICH HAS OCCURRED?

- THE FEDERAL GOVERNMENT TURNED OVER RESPONSIBILITY FOR LOCAL AFFAIRS LEAVING $279 MILLION IN UNPAID BILLS.

- THE FEDERAL GOVERNMENT ASSIGNED PAYMENT RESPONSIBILITY TO THE NEW DISTRICT GOVERNMENT FOR MASSIVE PENSION FUND LIABILITIES, WHICH COST OUR DC RESIDENTS $250 MILLION A YEAR.

- THE FEDERAL GOVERNMENT HAS PROHIBITED THE DISTRICT GOVERNMENT FROM TAXING INCOME EARNED HERE IN THE DISTRICT--THE ONLY JURISDICTION IN AMERICA SO PENALIZED--WHICH LEADS TO A SITUATION WHERE 300,000 CARS FROM OUR SUBURBAN NEIGHBORS CREATE POTHOLES EACH DAY ON OUR MAIN THOROUGHFARES AND NEIGHBORHOOD STREETS THAT SCARCE LOCAL DOLLARS MUST FIX.

- OF THE 630,000 JOBS IN THE DISTRICT, ONLY 190,500 OF THEM ARE HELD BY DISTRICT OF COLUMBIA RESIDENTS, THE BALANCE - SOME 439,000 - ARE HELD BY NON-DISTRICT RESIDENTS. THESE NON - D.C. RESIDENTS EARN OVER $19 BILLION. MOST OF WHICH SUPPORTS THE ECONOMIES OF SUBURBAN MARYLAND AND VIRGINIA. IF WE COULD TAX THIS INCOME AT THE SAME RATE AS THE CITY OF PHILADELPHIA TAXES ITS NON-RESIDENTS, WE WOULD GENERATE $750 MILLION EACH YEAR FOR SERVICES DISTRICT RESIDENTS AND BUSINESSES NEED AND DESERVE.

- THE FEDERAL GOVERNMENT ASSIGNED SIGNIFICANT STATE-LEVEL FUNCTIONS TO THE DISTRICT GOVERNMENT WITHOUT APPROPRIATE RESOURCES--INCLUDING PRISONS, A MENTAL HEALTH SYSTEM, AND MUCH MORE. UNLIKE OTHER CITIES, WE HAVE NO GOVERNOR TO SUMMON FOR HELP OR TO REDISTRIBUTE REVENUES IN THE FORM OF STATE AID. INSTEAD, WE GO QUIETLY ABOUT, SHOULDERING THE BURDEN OF SUBSIDIZING NOT ONLY THE REGION, BUT THE FEDERAL GOVERNMENT AS WELL

THESE BASIC STRUCTURAL INEQUITIES HAVE CONTRIBUTED SIGNIFICANTLY TO THE DEPRESSION OF THE DISTRICT'S ECONOMY IN OTHER WAYS.

THE DISTRICT'S POPULATION HAS DECLINED BY ABOUT 25% SINCE 1970. 53,000 INHABITANTS LEFT THE DISTRICT IN THE LAST FIVE YEARS. WE HAVE LOST ABOUT ONE THIRD OF OUR TWO INCOME HOUSEHOLDS, RESULTING IN A SIGNIFICANT LOSS OF REVENUE. ACCORDING TO THE RECENTLY PUBLISHED STUDY BY CAROLE O'CLEIREACAIN, THE ORPHANED CAPITAL, THE DISTRICT MAKES UP APPROXIMATELY 13% OF THE REGION'S POPULATION, WHILE HOUSING 44% OF THE REGION'S POOR.

OUR POPULATION LOSS IS ALSO COMPLICATED BY THE INTENSE SUBURBANIZATION OF THIS REGION, 87% TO 88% OF THIS REGION'S

POPULATION LIVES OUTSIDE OF THE DISTRICT. A CONDITION EXAMINED IN A MAY 18, 1997 POST ARTICLE BY DAVID RUSK- FORMER MAYOR OF ALBUQUERQUE AND NEW MEXICO STATE LEGISLATOR. MOVEMENT OF THE BLACK AND WHITE MIDDLE CLASSES TO THE SUBURBS HAS LEFT URBAN CENTERS WITH LARGE NUMBERS OF POOR PEOPLE CONCENTRATED IN DETERIORATING NEIGHBORHOODS. CONDITIONS WHICH DON'T EASILY ATTRACT INVESTMENT BY HOMEOWNERS OR BUSINESSES. CITIES LIKE COLUMBUS, NASHVILLE, JACKSONVILLE, CHARLOTTE, AUSTIN, AND INDIANAPOLIS HAVE ADDRESSED THIS CHALLENGE BY ANNEXING THEIR SUBURBS, IN EFFECT CAPTURING A SHARE OF THE GROWTH, WHICH IN TURN PROVIDES THE OPPORTUNITY TO REDISTRIBUTE SOME OF THE WEALTH NECESSARY TO SUPPORT THE INFRASTRUCTURE AND SERVICES REQUIRED.
IT GOES WITHOUT SAYING THAT ANNEXING ITS SUBURBS IS NOT A SOLUTION AVAILABLE TO THE DISTRICT.

ALTHOUGH THERE ARE SIGNS OF IMPROVEMENT SUCH AS DOWNTOWN DEVELOPMENT, AND A SLIGHT IMPROVEMENT IN THE UNEMPLOYMENT RATE, THE DISTRICT'S ECONOMY IS STILL STAGNANT. THE DISTRICT'S UNEMPLOYMENT RATE IS 7.8%, ONLY 0.3% LOWER THAN THIS TIME LAST YEAR, AND IS TWICE THE REGIONAL UNEMPLOYMENT RATE. SINCE THE REGION BEGAN RECOVERY IN 1992 JOB DISTRIBUTION HAS BEEN EXTREMELY UNEVEN BETWEEN THE DISTRICT AND ITS NEIGHBORS. ACCORDING TO DEPARTMENT OF EMPLOYMENT SERVICES DATA, SINCE 1992 THE SUBURBS HAVE GAINED 225,000 NEW JOBS, WHILE THE DISTRICT HAS LOST 49,600. IT IS ALSO IMPORTANT TO NOTE THAT LESS THAN 25% OF PRIVATE SECTOR JOBS ARE LOCATED IN THE DISTRICT, BY CONTRAST ABOUT 40% OF TOTAL EMPLOYMENT IN THE DISTRICT IS FEDERAL AND DISTRICT GOVERNMENT BASED. UNEMPLOYMENT COULD BE FURTHER EXACERBATED WITH FEDERAL AND DISTRICT GOVERNMENT DOWNSIZING EXPECTED TO CONTINUE INTO THE YEAR 2000.

THE DISTRICT'S MAJOR INDUSTRY, THE FEDERAL GOVERNMENT, IS TAX EXEMPT. FORTY-ONE PERCENT OF THE PROPERTY IN THE DISTRICT IS TAX EXEMPT.

THE CONDITIONS I JUST OUTLINED PLACE THE DISTRICT IN THE PROVERBIAL "CATCH 22" . THE SHRINKING REVENUE BASE FORCES THE DISTRICT GOVERNMENT INTO THE POSITION OF IMPOSING AN UNFAIR TAX BURDEN ON THE REMAINING VERY NARROW BASE OF RESIDENTIAL AND BUSINESS TAX PAYERS. OUR PER CAPITA TAXES ARE $4,168, COMPARED WITH $3,105 IN BOSTON AND $2,429 IN BALTIMORE, CITIES SIMILAR SIZE TO THE DISTRICT. THE DISTRICT'S TAX BILL FOR BUSINESSES IS AT LEAST 25% GREATER OVERALL THAN IN THE REST OF THE REGION. THIS IN TURN CHASES STILL MORE MIDDLE INCOME FAMILIES AND BUSINESSES TO THE SUBURBS AS THE LACK OF REVENUE CAUSES REDUCTIONS IN

SERVICE.

AS I HAVE ALREADY POINTED OUT, AND HAS BEEN DOCUMENTED THOROUGHLY, WE CANNOT CUT OUR WAY TO ECONOMIC HEALTH AND GROWTH. IN ADDITION TO ACHIEVING FINANCIAL ACCOUNTABILITY AND SOUND FISCAL MANAGEMENT, WE MUST:

- BRING MIDDLE INCOME FAMILIES AND BUSINESSES BACK TO THE DISTRICT BY REDUCING THE TAX BURDEN, IMPROVING SERVICES AND PUBLIC EDUCATION; AND

- INCREASE EMPLOYMENT FOR D.C. RESIDENTS.

<u>POSITION ON PRESIDENT'S PLAN TO PROVIDE ECONOMIC DEVELOPMENT ASSISTANCE TO THE DISTRICT</u>

MR. CHAIRMAN, I WELCOME THIS INTEREST AND COMMITMENT BY THE WHITE HOUSE. THE PRESIDENT'S PLAN BEGINS TO RECOGNIZE THE FEDERAL GOVERNMENT'S RESPONSIBILITY IN PERPETUATING THE DISTRICT'S LONG-STANDING STRUCTURAL CONSTRAINTS, AND PRESENTS A UNIQUE AND HISTORIC OPPORTUNITY TO REDEFINE THE RELATIONSHIP BETWEEN THE DISTRICT AND THE FEDERAL GOVERNMENT.

THE PRESIDENT PROPOSES TO ASSIST THE ECONOMIC DEVELOPMENT OF THE DISTRICT IN THREE WAYS:

ESTABLISHMENT OF AN ECONOMIC DEVELOPMENT CORPORATION;

PROVISION OF $250,000,000 IN TAX INCENTIVES TO ENCOURAGE DOWNTOWN AND NEIGHBORHOOD INVESTMENT; AND

CLARIFICATION OF THE DISTRICT'S REVENUE BOND AUTHORITY TO PROVIDE THE DISTRICT LEGAL CAPACITY TO FINANCE PROJECTS COMPARABLE TO OTHER SIMILAR JURISDICTIONS.

WILL THESE PROPOSALS HELP US ADDRESS THE CHALLENGES WE FACE? AS I SEE THE SITUATION MR. CHAIRMAN, ECONOMIC DEVELOPMENT IN THE DISTRICT OF COLUMBIA IS DRIVEN BY:

- RETENTION AND ATTRACTION OF BUSINESSES THROUGH A PROGRAM OF FAIR TAXES AND REGULATION, WORKFORCE DEVELOPMENT, NEIGHBORHOOD REVITALIZATION AND JOB CREATION.

- RETENTION AND ATTRACTION OF MIDDLE INCOME FAMILIES

AND RESIDENTS THROUGH A PROGRAM OF FAIR TAXES, GOOD SCHOOLS, ROADS AND PUBLIC SAFETY.

- PUBLIC-PRIVATE PARTNERSHIPS.

- RECAPTURING LOST REVENUE THROUGH RECIPROCAL INCOME TAXES ON NON-RESIDENT WORKERS, AND INCENTIVES TO BUSINESSES TO HIRE D. C. RESIDENTS.

GENERALLY SPEAKING THE PLAN WILL INVEST ALMOST $4 BILLION OF FEDERAL BUDGETARY RESOURCES IN THE DISTRICT WHICH WILL HELP REDUCE THE NEED TO INCREASE TAXES AND FEES. MORE SPECIFICALLY, THE TAX CREDITS, THE PRIVATE ACTIVITY BONDS AND EXPENSING BUSINESS EQUIPMENT AND MACHINERY PROVISIONS OF THE PLAN WILL ENCOURAGE BUSINESS AND JOB DEVELOPMENT IN NEIGHBORHOODS, AND ENCOURAGE BUSINESSES TO HIRE DISTRICT RESIDENTS.
MR. CHAIRMAN, THIS IS A GOOD BEGINNING, BUT IT IS NOT ENOUGH.

THE PRESIDENT'S PLAN DOES NOT DIRECTLY ADDRESS THE NEED TO RETAIN AND ATTRACT MIDDLE INCOME FAMILIES AND RESIDENTS. I BELIEVE THE PROPOSAL ADVANCED BY CONGRESSWOMAN ELEANOR HOLMES NORTON HOLDS THE BEST OPPORTUNITY TO RETAIN AND ATTRACT MIDDLE INCOME FAMILIES AND RESIDENTS. MS. NORTON'S PROPOSAL SHOULD BE APPROVED BY THE CONGRESS AS QUICKLY AS POSSIBLE.

THE PRESIDENT'S PLAN DOES NOT ADDRESS EDUCATION IN THE DISTRICT. ENSURING QUALITY EDUCATION IS ESSENTIAL TO RETAINING AND ATTRACTING MIDDLE-INCOME FAMILIES WITH SCHOOL AGE CHILDERN.

POLICIES AND INCENTIVES WHICH ENCOURAGE THE HIRING OF D.C. RESIDENTS MUST BE STRENGTHENED, AND MUST BE A PRIORITY. CREATING JOBS IN THE DISTRICT IS NOT ENOUGH, THERE MUST BE A COMMITMENT TO HIRE D.C. RESIDENTS IN THESE JOBS. HISTORICALLY, ONLY 33% OF D.C. BASED JOBS GO TO D.C. RESIDENTS. A RECENT ANALYSIS DONE BY MCKINSEY AND COMPANY DEMONSTRATES THAT BY INCREASING THE NUMBER OF D.C. RESIDENTS EMPLOYED FROM THE CURRENT 33% OF D.C. BASED JOBS TO 78% THE DISTRICT COULD REALIZE 80% TO 84% GREATER REVENUES IN TERMS OF SALES, COMMERCIAL PROPERTY, BUSINESS AND INDIVIDUAL INCOME TAXES. IN REAL DOLLARS, EMPLOYING 100 D.C. RESIDENTS VERSUS CREATING 100 JOBS, UNDER EXISTING CIRCUMSTANCES, YIELDS $352,212 IN REVENUE. JUST THINK MR. CHAIRMAN, EMPLOYING 1000 UNEMPLOYED D.C. RESIDENTS WOULD GENERATE MORE THAN $350 MILLION IN REVENUE. AS A MATTER OF FACT I URGE YOU TO TAKE THE INITIATIVE TO PROMOTE A "HIRE D.C. RESIDENTS FIRST" PROGRAM HERE ON THE HILL. I UNDERSTAND THAT

THE CONGRESS EMPLOYS MORE THAN 10,000 PEOPLE. I THINK THAT EVERYTIME THERE IS A VACANCY HERE ON THE HILL, YOU (THE CONGRESS) OUGHT TO MAKE IT A POINT TO HIRE QUALIFIED D.C. RESIDENTS FIRST.

IN THE CONTEXT OF HIRING D.C. RESIDENTS FIRST, I THINK WE SHOULD EXPLORE REINSTITUTING A RESIDENCY REQUIREMENT FOR D.C. GOVERNMENT EMPLOYEES. IN ADDITION TO RETAINIG REVENUE, SUCH A POLICY BRINGS PUBLIC SERVICE EMPLOYEES CLOSER TO THE COMMUNITY THEY ARE PAID TO SERVE.

THERE MUST BE A COMMITMENT ON THE PART OF THE FEDERAL GOVERNMENT TO MAINTAIN ITS PRESENCE HERE IN THE DISTRICT. THERE IS NO DOUBT THAT THE DISTRICT'S MAJOR INDUSTRY SERVES AS A MAGNET FOR OTHER BUSINESS AND INDUSTRY. I AM WILLING TO WORK CLOSELY WITH THE WHITE HOUSE AND CONGRESS TO DEVELOP A PLAN FOR ACCOMPLISHING THIS GOAL.

SOME FORM OF FEDERAL PAYMENT OR PAYMENT IN LIEU OF TAXES MUST BE MAINTAINED. IF THE DISTRICT WERE TO MAKE THE $400 MILLION ADJUSTMENTS TO ITS TAX STRUCTURE RECOMMENDED BY CAROLE O'CLEIREACAIN TO IMPROVE THE CLIMATE FOR BUSINESSES AND MIDDLE INCOME RESIDENTS, A PAYMENT IN LIEU OF TAXES ("PILOT") WOULD BE ABSOLUTELY NECESSARY TO OFFSET THE LOSS OF REVENUE. A PILOT IS PART OF O'CLEIREACAIN'S RECOMMENDATIONS FOR RESTRUCTURING THE DISTRICT'S CURRENT TAX PROGRAM.

FINALLY, I WOULD LIKE TO FURTHER EXPLORE THE MAKE-UP OF THE PROPOSED NINE MEMBER BOARD OF DIRECTORS, OF WHICH ONLY THREE ARE PROPOSED TO BE APPOINTED BY LOCAL ELECTED OFFICIALS. GIVEN THE CRITICAL ROLE THAT THE NEW CORPORATION WILL PLAY IN ADDRESSING COMMUNITY INVESTMENT ISSUES, I BELIEVE THAT A MORE BALANCED AND LOCALLY REPRESENTATIVE BOARD IS NEEDED.

WHAT WE ARE DOING?

MR. CHAIRMAN, WE HAVE NOT BEEN IDLE. WE ARE IMPROVING THE CLIMATE FOR BUSINESSES AND FAMILIES IN THE DISTRICT.
IN MY APRIL 25, 1997 LETTER TO YOU I DISCUSSED SEVERAL OF THE BUSINESS IMPROVEMENT INITIATIVES THAT ARE UNDERWAY.
ADDITIONALLY:

WE ARE WORKING WITH THE D.C. AGENDA. AS PART OF THE ECONOMIC DEVELOPMENT STRATEGY GROUP, WE HAVE CRYSTALLIZED AN

ECONOMIC DEVELOPMENT VISION AND IMPLEMENTATION STRATEGY FOR THE DISTRICT OF COLUMBIA, THIS VISION AND STRATEGY WAS ANNOUNCED ON MAY 14, 1997.

THE DISTRICT OF COLUMBIA TAX REVISION COMMISSION WILL ISSUE ITS REPORT ON RECOMMENDED REVISIONS FOR IMPROVING THE DISTRICT'S TAX CODE BEFORE THE END OF THIS YEAR.

WE ARE ALREADY REVIEWING THE RECOMMENDATIONS OF CAROLE O'CLEIREACAIN.

THE BUSINESS REGULATORY REFORM COMMISSION, THE MEMBERSHIP OF WHICH IS PRIMARILY BUSINESS PEOPLE, WILL ISSUE ITS REPORT IN AUGUST THIS YEAR. THE COMMISSION WILL ISSUE PRELIMINARY RECOMMENDATIONS IN JUNE ON SIMPLIFYING ASPECTS OF THE DISTRICT'S TAX AND FEE STRUCTURE.

BEFORE THE END OF THIS FISCAL YEAR I WILL TRANSMIT TO THE COUNCIL BUSINESS INCENTIVES LEGISLATION. THIS IS THE RESULT OF WORK BEING COORDINATED BY THE OFFICE OF THE DEPUTY CITY ADMINISTRATOR FOR ECONOMIC DEVELOPMENT . THE LEGISLATION WILL ADDRESS SUCH INCENTIVES AS: REAL AND PERSON PROPERTY TAX ABATEMENT, JOB TAX CREDITS (WITH AN OPTIONAL CREDIT FOR ON THE JOB TRAINING), TAX INCREMENT FINANCING, AND WORK FORCE TRAINING GRANTS.

<u>CONCLUSION</u>

MR CHAIRMAN, THE DISTRICT IS LOCKED UP AND LOCKED DOWN. ONCE AGAIN, THE DISTRICT FACES AN HISTORIC CROSSROAD, A MOMENT OF TRUTH, A GREAT TURNING POINT. THE INGREDIENTS FOR A SOLUTION ARE CLOSE AT HAND. I AM CONFIDENT THAT FOR ONCE, WE ARE ALL ON THE RIGHT PATH AND THAT TOGETHER, WE WILL NOT LOSE THIS OPPORTUNITY TO MAKE A LASTING CHANGE FOR OUR BELOVED NATION'S CAPITAL--AMERICA'S FIRST CITY. I THANK YOU FOR INVITING ME TODAY.

Mr. DAVIS. Well, Mr. Mayor, I will address that in the question and answer period. I think we want to hire qualified people that can get the job done.

Mr. BARRY. I said qualified DC residents, "qualified."

Mr. DAVIS. Exactly.

Ms. NORTON. That includes DC residents.

Mr. DAVIS. Of course it does. Of course it does.

Mr. BARRY. Qualified, Mr. Chairman. We have some very, very qualified DC residents who are out of work.

Mr. DAVIS. Well, we'll talk about that, Mr. Mayor.

Ms. Cropp, thank you very much. Thanks for being here today.

Ms. CROPP. Thank you very much.

Mr. Davis, Ms. Norton, Mrs. Morella, good afternoon. I am very pleased to be with you today to discuss the economic development component of the President's plan to revitalize Washington, DC.

Few cities across the Nation would have survived if they performed the State functions that we do in the District of Columbia. As you may know, the Council feels strongly that a Federal payment should remain as part of the budget. Mr. Chairman, we look forward to working with you to keep the Federal payment as a part of the budget.

We have the resolve to correct the management problems. we need your help to correct the structural problems within the District of Columbia. A successful economic development program could be the cornerstone on which to recast Washington as a vibrant and flourishing urban center.

The District of Columbia Economic Development Corp., as proposed in the President's plan, would be substantially capitalized and substantially empowered to help revitalize the District's economy. We thank the President for recognizing a need with regard to the economic development in the District, and we look forward to working with Congress to craft the final details of enacting the legislation.

With me today is Councilmember Charlene Drew Jarvis, who is the chair of the Committee on Economic Development of the Council of the District of Columbia, and she will be presenting the Council's position on the President's economic plan.

[The prepared statement of Ms. Cropp follows:]

TESTIMONY OF
LINDA W. CROPP
ACTING CHAIRPERSON
COUNCIL OF THE DISTRICT OF COLUMBIA

BEFORE THE
COMMITTEE ON GOVERNMENT REFORM
AND OVERSIGHT
SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA

May 22, 1997

Mr. Chairman, Members of the Committee, I am pleased to be with you this morning to discuss the economic development component of the President's plan to revitalize Washington, D.C.

A successful economic development program could be the cornerstone on which to recast Washington as a vibrant and flourishing urban center. The District of Columbia Economic Development Corporation as proposed in the President's plan would be substantially capitalized and substantially empowered with bold authorities to help revitalize the District's economy. We thank the President for recognizing a need with regard to Economic Development in the District, and we look forward to working with the Congress to craft the final details of the enacting legislation.

With me today is Councilmember Charlene Drew Jarvis, Chair of the Committee on Economic Development of the Council of the District of Columbia. She will be presenting the Council's position on the President's economic plan.

Mr. DAVIS. Thank you very much.

Charlene, welcome.

Ms. JARVIS. Thank you very much, Congressman Davis. I am delighted to join my chair and the Mayor this morning, and to say good morning to Ms. Norton and to Mrs. Morella.

On behalf of the District of Columbia, I am very pleased to have this opportunity to testify at today's hearing on the President's National Capital Revitalization and Self-Government Improvement Plan.

The elected officials who represent the residents of the District continue to embrace this historic opportunity to address the city's financial condition and the fundamental inequities that have long existed in the relationship between the District and the Federal Government.

We have done this by signing the Memorandum of Understanding with the Office of Management and Budget and the District Executive. And now we welcome the opportunity to engage members of this subcommittee and other Members of Congress in a continuing dialog about various aspects of municipal partnership.

I have been asked to testify today on the portion of the plan in which the President proposes a federally funded commitment to help capitalize a new, non-Federal public-private partnership called the District of Columbia Economic Development Corp.

The Council supports the establishment of what I will refer to as the EDC, which would have broad authority to spur private development, including the use of Federal tax credits, both for hiring District residents and business loans and investments. The EDC would be able to use tax-exempt private activity and revenue bonds and use limited authority to acquire property by eminent domain in furtherance of its statutory objectives.

The Council requests that the Economic Development Corp. provide for considerable local participation and input, in order to guide and direct development opportunities throughout the city. This would be accomplished through increased local representation on the board of directors.

In order to leverage private sector development projects throughout the city, the corporation would be capitalized, in part, with Federal and District funds, land grants, and property development rights.

I believe that economic turnaround in the District depends upon the private sector, and that government can provide the catalyst for this development. Examples of the recently successful public-private partnership include the MCI Center, the Opera, and the planned convention center.

An Economic Development Corp. operating citywide would address both community development and business improvement needs. An Economic Development Corp. would provide the District with necessary tools and resources to improve the prospects for Home Rule to succeed, while concurrently addressing the concerns respecting DC's unique position and additional responsibilities as the capital city.

An EDC with the mission of promoting investment in the District would be created, in partnership with the Federal Government and the private community. The challenge will be to responsibly undertake useful economic development projects and assist the District in all aspects of revitalization.

Likewise, the Council also strongly supports the Memorandum of Understanding's endorsement of amendments to the Home Rule Act which would help improve the institutional and fiscal capacity of our government by providing for the same legal capacity to finance economic development projects as in other jurisdictions.

Thus, the District would no longer be competitively disadvantaged, because the amendments would clarify the District's authority to use taxable and tax-exempt bonds for business development and job creation purposes, to the same extent permitted other State and local governments. We would be able to promote quick, 60-day settlement through expedited approval of revenue bond transactions that do not involve the pledge of District revenues or assets.

These transactions would assist in financing public and private, nonprofit, elementary, secondary, vocational, and charter schools, and other private and governmental capital projects that enhance economic and employment opportunities in the District.

We would also be able to pledge special fund revenues, including tax increments, fees, and payments in lieu of taxes, to secure the costs of municipal parking facilities and public infrastructure redevelopment for utilities, streetscape improvements, and park enhancement projects cosponsored by neighborhood associations, including business improvement districts. These measures are as critical to ensuring the financial success of major revitalization projects as is the EDC to the success of project implementation.

Toward this end, the Council requests Federal assistance to complete the financing of the planned new convention center. We ask this particularly because the Council recognizes the substantial economic benefit to the District and the region of a new and larger convention center in the Nation's Capital.

History has proven that most of the Nation's convention centers have needed external support to develop these facilities. We want to be proud of our new national convention center and attract people with a world-class facility design and the ability to market to groups of all sizes.

Mr. Chairman, may I also, if you would permit me, indicate that I think that one of the most important reasons for the establishment of the Economic Development Corp. is to have a single, focused activity and a push for the kind of creative development that is critical in the District. The economic development structure within the government has its people and its resources spread so thinly as not to be able to focus on the issue of economic growth and economic development to the extent that ought to occur.

The Business Services and Economic Development Agency has, as a part of its responsibility, the Department of Consumer and Regulatory Affairs. Those issues are critical to business development, and they must be focused on, as well. But if the same people are to do the business regulatory reform as are to do the development, then we have what we have had in the past, which is without that single, major focus on the activity that produces jobs in the District of Columbia.

The Business Regulatory Commission, Mrs. Morella, will be making its report within 60 days, and that goes to your question of the District's ability to regulatory reform.

The Tax Revision Commission will be reporting within 60 days, and a tax incentive package is going to be produced through legislation which the Mayor is sending to the Council, as a result of having had an outside firm do a study of such tax incentives. And that is in response to repeated concerns that I hear this morning about restructuring of the tax system for the District.

Thank you.

[The prepared statement of Ms. Jarvis follows:]

COUNCIL OF THE DISTRICT OF COLUMBIA

WASHINGTON, D.C. 20004

TESTIMONY OF COUNCILMEMBER CHARLENE DREW JARVIS
COUNCILMEMBER, WARD 4
&
CHAIR, COMMITTEE ON ECONOMIC DEVELOPMENT

BEFORE THE HOUSE SUBCOMMITTEE ON THE DISTRICT OF COLUMBIA, REGARDING "THE PRESIDENT'S NATIONAL CAPITAL REVITALIZATION AND SELF-GOVERNMENT IMPROVEMENT PLAN"

MAY 22, 1997

Good morning, Representative Davis . . . and Members of the House Subcommittee on the District of Columbia. On behalf of the District of Columbia, I am very pleased to have this opportunity to testify at today's hearing on "The President's National Capital Revitalization and Self-Government Improvement Plan."

We, the elected officials who represent the residents of the District of Columbia, continue to embrace this historic opportunity to address the city's financial condition and the fundamental inequities that have long existed in the relationship between the District and the Federal Government. We have done this by signing the Memorandum of Understanding with the Office of Management and Budget and District Executive. We now welcome the opportunity to engage members of this subcommittee and other Members of Congress in a continuing dialogue about various aspects of municipal partnership. If Americans are serious about revitalizing our nation's capital, we must work together to reverse the hemorrhaging of both jobs and residents from the economic core of this region. On the local level, this requires a greater commitment to focus our priorities and increasingly scarce resources on obtaining safe and clean neighborhoods with good schools -- along with safe, clean and attractive, vital business districts. It also means actively pursuing tax and business regulatory reforms that lower the cost of doing business in the District.

I have been asked to testify today on the portion of the plan in which the President proposes a federally funded commitment to help capitalize a new, non-federal public-private partnership called the District of Columbia Economic Development Corporation. The Council supports the establishment of what I will refer to as an EDC, which would have broad authority to spur private development, including the use of substantial Federal tax credits both for hiring District residents and for business loans and investments. The EDC would be able to use tax-exempt private activity and revenue bonds, and use limited authority to acquire property by eminent domain in furtherance of its statutory objectives.

The Council requests that the economic development corporation provide for considerable local participation and input in order to guide and direct development opportunities throughout the city. This would be accomplished through increased local representation on the board of directors of the EDC. In order to leverage private sector development projects throughout the city, the corporation would be capitalized, in part, with Federal and District funds, land grants and property development rights. I believe that economic turnaround in the District depends upon the private sector, and that government can provide the catalyst for this development. Examples of recent and successful public-private partnership include the MCI Center, the Washington Opera, and the planned convention center. These Downtown projects illustrate the demand for high-quality urban development and provide signs of promise that the District can experience economic recovery.

An economic development corporation operating citywide would address both community development and business improvement needs, which in combination would take the District significantly further toward meeting the overall goals of revitalizing the District as our Nation's Capital. Furthermore, an economic development corporation will provide the District with the necessary tools and resources to improve the prospects for homerule to succeed while concurrently addressing the concerns respecting DC's unique position and additional responsibilities as the Capital City.

An EDC with the mission of promoting investment in the District would be created in partnership with the Federal government and the private community. The challenge to the EDC will be to responsibly undertake useful economic development projects, and assist the District in all aspects of revitalization, especially the return of commercial viability and community liveability.

Likewise, the Council also strongly supports the Memorandum of Understanding's endorsement of amendments to the Home Rule Act. This enabling legislation would help to improve the institutional and fiscal capacity of our government by providing for the same legal capacity to finance economic development projects as other jurisdictions. Thus the District would no longer be competitively disadvantaged because the amendments would clarify the District's authority to use taxable and tax-exempt bonds for business development and job creation purposes to the same extent permitted other state and local governments. We would be able to promote quick 60-day settlement through expedited approval of revenue bond transactions that do not involve the pledge of District revenues or assets. These transactions would assist in financing public and private non-profit elementary, secondary, vocational and charter schools, and other private and governmental capital projects that enhance economic and employment opportunities in the District. We would also be able to pledge special fund revenues, including tax increments, fees and payments in-lieu of taxes, to secure the costs of municipal parking facilities, and public infrastructure redevelopment for utilities, streetscape improvements and park enhancement projects co-sponsored by neighborhood associations including Business Improvement Districts. These measures are as critical to ensuring the financial success of major revitalization projects as is the EDC to the success of project implementation.

Toward this end, the Council requests Federal assistance to complete the financing of the planned new convention center. We ask this particularly because the Council recognizes the substantial economic benefit to the District and the region of a new and larger convention center in the nation's capital, and history has proven that most of the nation's convention centers have needed external support to develop these facilities. We want to be proud of our new national convention center and attract people with a world-class facility design and the ability to market to groups of all sizes and interests.

Importantly, the President's Plan will increase capital investment in the District's public infrastructure through the creation of the National Capital Infrastructure Commission and Fund with $108 million in Federal seed money in Fiscal Year 1998 for capital projects. These funds need to be available, however, not only for National Highway system projects, but also for other approved Federal aid highway and bridge projects and for our badly deteriorating local roads and bridges.

In addition to the $108 million in Federal seed money, the Council supports redirection of most of the $200 million in Federal dollars previously authorized for the Barney Circle project to the Infrastructure Fund, again to be used primarily for local infrastructure projects.

The Council is working with OMB, and would welcome the opportunity to work with the Congress, to ensure that any independent authority that might be newly established to administer this fund would have sufficient District representation so that local priorities are properly reflected in the selection of capital improvement projects. The Council also would like the Federal seed money in the Fund to be able to used to leverage additional financing, for the purpose of funding the deferred maintenance of our local roadway infrastructure.

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Mr. DAVIS. Thank you very much.

Let me start the questioning. I am going to address the issue you brought up about the hiring of residents. What it tells me, Mr. Mayor, is that you still don't understand and don't get what's happening in the economy in this region. That you don't understand why you have an outflow of jobs from the city to the suburbs.

It is taxes, and you mentioned taxes. I'm going to do everything I can to reduce the tax burden, whether it's through Ms. Norton's bill or Mr. Moran's requirements or whoever's, because I think the tax burden has to come down. But you've got to reduce regulation, as well.

And every time you pass a bill that may get points out there with some constituency group, but you hinder the market process, you, in essence, are putting more regulation on business, requirements on business that lead people not only to not want to invest but who end up voting with their feet by leaving to go elsewhere, creating greater inefficiencies.

Take for example, your proposal, that your contractors for the city have to hire city residents. One of the leading procurement people we had in Fairfax County was a District resident who was a very capable person. I wouldn't have required him to move. He headed up our computer operations in the county. He was the best qualified person we could have. We felt, when the taxpayers are paying dollars, they ought to get the best people, wherever they live.

For people coming in, whether they are experts or the lowest ranking jobs, you certainly want to make sure that that District labor pool is included in that, and that you can find as many jobs. But that kind of requirement is rebuffed by people who have to invest the money and put their capital at stake.

So many decisions the city has made, however well-intentioned and well-sounding they may be, have the effect of chasing capital out of the city instead of attracting capital and investment into the city.

I just want to read one of the local comments about your plan. "The Mayor said that he didn't talk with business people before he sent the legislation to the council, and it was immediately rebuffed by the Board of Trade and other business organizations." You need to work and form a partnership with the business community.

The way Cleveland came out of their doldrums was, the leadership in that city worked with the business community. The way that Philadelphia and Mayor Ed Rendell have moved ahead is, the city formed a partnership with the business community. The way New York City came out of the doldrums is, they formed partnerships with the business community, not constantly putting a stick in their eye and talking about other things.

That's what the city needs to do, and they need to reduce the regulatory burdens and form a partnership working with it. And frankly, in the plan here, I don't see that. In fact, I see this as another indication of not trying to understand the marketplace, or trying to work with the marketplace.

The plan sounds so 1960's to me, and it's not really where you need to go to move in the 21st century. This city has so many great opportunities ahead of it over the next decade. The high technology boom in the suburbs right now, 18,000 jobs we can't fill in northern Virginia.

I know the consortium of universities has come up with a proposal—I'm going to ask you how you have responded to that, but I understand it hasn't been as proactive as they would have liked—to start training people and have UDC move their curriculum to train people for some of the jobs available now in the region. We'd love to have them out in the suburbs.

We'll take anybody we can find right now, because these jobs are going to India, they are going to the Pacific Rim, or offshore, and to other parts of the country, because we can't find qualified people here. We have systems where the city ought to be able to add value to those equations.

The Southeast Development Center, the Navy Yard where we're going to have a huge Federal presence, hopefully, in the very near future, is a great opportunity for the city. I know Ms. Jarvis has been active in trying to make sure that we have a zoning envelope and maybe a regulatory envelope down there that can be attractive to private sector investment around there, and do the kinds of things that Crystal City and Rosslyn and other areas have done, in northern Virginia, to attract private capital.

But to rely on government to manipulate this and move it is not what the city needs. It needs to be more entrepreneurial, in my judgment. If you take a look at the models of cities that have succeeded, that's what they have done. Unfortunately, I don't think this proposal passes that test, and I think it's a step backward.

I will give you a chance to respond. I would be happy to hear Ms. Jarvis. Otherwise, let's work together. We can reduce the tax and regulatory burden in this city, and we can continue to make this a great city. We have a great opportunity ahead of us.

The economy in this region is very healthy, and the growth in some of these segments is such that the city can grow with some proactive movement on the tax and regulatory front, and some targets that the Economic Development Corp. can bring.

Also, the MCI Center, if we can ever get the city to get its act together—and it is a city problem at this point, not a Federal problem—in terms of moving the convention center forward, offers job opportunities to people in the hospitality industry, downtown, who don't have to even have a high school education. We can increase tourism and get that going.

So we have some great possibilities ahead of us. All we need is the right blend of leadership and vision to move forward. We are ready here to add to the equation. But I don't think this proposal, frankly, passes the laugh test.

Mr. BARRY. What proposal are you talking about, Mr. Chairman?

Mr. DAVIS. This is the one about contractors just hiring city residents and all.

Mr. BARRY. Mr. Chairman, let me say that no other city in America is burdened with the inability to tax income. Our income tax in the District of Columbia, and in the Federal Government, and in State governments, is our largest single source of income.

New York City has regulations and requirements that when you do business in New York City, you have to, first of all, in some instances, have your corporation located in the city.

And second, there are 24,000 businesses in the District of Columbia. The DC government does business with less than 2,000 businesses. We have not found any road construction contractor who said, "I don't want to hire qualified DC residents." This law has been on the books since 1984. A number of companies are using that law. They use it at the Department of Employment Services.

If you were to give us the authority to tax income in Washington, at its source, I would withdraw that proposal, because there would be no need for it. Wherever you lived, if you worked in the District of Columbia, you would then be able to get that income. You can't downplay that.

Second, in terms of hiring DC residents, you imply that we don't have qualified people in Washington.

Mr. DAVIS. Well, that is absolutely wrong.

Mr. BARRY. I said you implied it.

Mr. DAVIS. I started my statement by talking about the head of the computer systems in Fairfax, who is a DC resident, and how talented he was. I don't think that talent has any residential bounds. So I will just—don't turn that around on me. I didn't say that. I didn't imply it, and I don't mean it.

Mr. BARRY. Well, Eleanor leaned over and told you something about that. Anyway, that's another story.

Mr. DAVIS. No, she didn't lean over. She said it publicly, and I agree with her.

My time is up. I'm going to pass the baton now to Ms. Norton. If she wants to get up and defend you, I'll allow her, under her 5 minutes.

Ms. Norton.

Ms. NORTON. Well, the chairman clarified that he did not mean to say that there weren't qualified people in the District, so I accept that. I know that that's what he meant.

But the Mayor's frustration is well placed. You know, you hear Jim Moran sit up here and say, "Don't lower their income taxes," and also, "Don't tax commuters from my jurisdiction." You will see frustration on the part of the District residents, who, after all, are Stateless and have very limited places from which to get new revenue.

I believe it was Ms. Jarvis who testified that the Tax Revision Commission report would be coming forward; is that 60 days from today?

Ms. JARVIS. Yes. Sorry, it's the Business Regulatory Commission that will be within 60 days. It's the Tax Revision Commission in December.

Ms. NORTON. I applauded when the Tax Revision Commission was appointed. I know how difficult it is to get through taxes and to come up with—this is very complicated stuff. The same should be said of the Regulatory Commission.

But I believe that the city may be overtaken on taxes, in one way or the other, if we are waiting until December. I may want, as we get close to finality on this bill—remember, we're aiming—if we're going to get it, we've got to get it through before September 30.

I may have to ask you all to come in and talk with me, because some of the proposals go to lowering business taxes, certainly, and there is some talk here, frankly, about putting things in the bill that we pass that would have an effect on regulations in the District. You know what I say on that stuff, that I oppose anything happening from up here.

One of the things I would like each of you to think about is, if we have to go on a fast track, how we might do so. One of the ways I'm usually able to get people up here from sticking things into bills is to indicate that action will be taken in the District. I do not believe I will be able, if this talk continues, to do so on the basis of a study that is underway.

So, to the extent that you have a sense of what the major features are, it would help me to keep people up here from deciding that the President's plan is a vehicle for doing that. I will continue to oppose that.

I want to commend you for having gotten ahead of the game on this, because I know that the studies that you have underway do require time. Under ordinary circumstances, I don't think it would be a question, and I don't think it should be one now.

And I think we can do it. I think we can work together, but I want you to begin to think about what major changes in taxes and regulations you, yourself, desire, because you know this as none of the rest of us know it.

Mr. DAVIS. Would the gentlelady yield just on that point, briefly?

I think we're going to have to move quickly on legislation. As Ms. Norton indicated, we may not have time for you to do it, so we'll have you at the table advising us, and have you provide as much information as you can. We clearly are going to need your great assistance and support as we write this legislation, but it may come faster than time allows. It's not under our control; it has to do with the whole budget reconciliation process.

So just stay on call. We need you.

Ms. CROPP. Mr. Chairman, we would encourage you to keep us informed. And we would love to work, Ms. Norton, with you on it. We would like to be an active participant and at the table with regard to any discussion on the District, any changes.

Mr. BARRY. Plus, Ms. Norton, most of this tax reform will probably not be revenue-neutral; it would be a loss of revenue. So if we're going to get money above what the President's plan is, if it's $300 million or $400 million, I think we could very quickly figure out what category of taxes we want to reduce.

Ms. NORTON. You say, if we get what? I'm sorry.

Mr. BARRY. I'm saying that most of this tax reform is not revenue-neutral; it's a loss of revenue. And if we knew whether a pot of money was available, say, if the Federal payment was $400 million, giving us $400 million above what the President's plan is, we could very quickly put together a series of options as to what taxes we would reduce.

The Business Regulatory Commission has done some preliminary work already. Most of that does not require additional moneys; they require different laws and changes that would make it easier for people to do business here.

Ms. NORTON. Well, one of the reasons that this is being discussed now is precisely what you have pointed to, that there would be some adjustments within the President's plan.

I have encouraged everybody to understand that I'm going to have a hard time keeping what we've got in here. I do that in order to encourage you all to begin thinking, in case they slip something away from us in this plan, what your preferences are for keeping. Because the notion of, you know, $400 million on top of that is less likely than I would like.

There is a separate tax package that the District is in. It is not configured at the moment, and there are lots of differences over what it should say. There are some people who are for elements of my package. There are some people for lowering taxes in the District. You are perfectly right, Mr. Mayor, that would mean you would have to make up for it in revenue.

None of that will be done without complete and total consultation with the District. I regard that matter, as I do anything affecting the District, as a Home Rule matter. But what I want to encourage you to do is to think dynamically about what happens if something gets pushed off the table, and where your preference would lie.

I certainly am not asking you to do that now, but I want to encourage it, because I think I would do a disservice if I said, "Now let's talk about what we want on top of what the President's package is."

You had a concern about eminent domain powers that are in the Economic Development Corp. I can certainly understand it. The interesting thing is, when I was initially briefed by the administration, the eminent domain powers were not in there. They were put in there at the request of the business community.

They wanted land in there. They wanted to make sure that they did not have to go through, I guess, the hurdles that one would have to go through in the District. On the other hand, your concern is perfectly understandable, as well.

Were you able to clarify that with the administration, and could I know where you now stand on the issue?

Mr. BARRY. It's still—it's barely clarified, Congresswoman Norton. It has "limited eminent domain," and we still are discussing with them, even to this morning, as to what means, more specifically. I think they have conceded that, obviously, any eminent domain has to comply with the local District zoning laws, but it's still not quite as clear as it needs to be.

Ms. NORTON. I think that that probably could be assisted by some understanding with them about a streamlined way to get eminent domain. I mean, since they were people who obviously are your allies who wanted the eminent domain, they weren't trying to undercut Home Rule, but obviously, if they could just go in and do whatever they wanted to, they have.

I think the reason they came forward is they thought it would take them a long time to get access to land to complete their plan. I guess my question is, is there a way to streamline that, whether for everybody or not, at least for them, so that we could straighten out—and that part wouldn't be a matter of contention.

Mr. BARRY. Someone suggested that—I'm not saying that this is a solution—that any proposed taking of land that was in the private sector would have to be approved by resolution of the city council. Someone suggested that may be one way of check and balance.

Ms. JARVIS. We did not actually include that proposal in the recommended language. What we did say is that there ought to be limited eminent domain powers consistent with the scope of the corporation's mission and consistent with local zoning and regulatory provisions.

The term "limited eminent domain" was incorporated in the MOU, "limited eminent domain authority," with the hope that there could be some further structuring of the language within the act itself over here on the Hill. So that is something that we desire to do and are continuing to try to do.

The important point about eminent domain authority and about the Economic Development Corp. itself, Ms. Norton, I think, is that the corporation becomes a singular focus for an entity which does not now exist; that is, there is not a single-minded focus on economic development in the District because of the many levels of responsibility of the person who sits as the head of that agency. And that is really the predicament that we face.

Ms. NORTON. I think you have described exactly why they piled these powers in this one entity, were trying to do that. They weren't trying to undercut your authority. In the process, they have done so.

You would help me a lot if you would begin to think about, the three of you would being to think about bill language that fed off of what you just said, Ms. Jarvis, but allowed for the fact of the existing independent jurisdiction. And in order for it to be effective, for me to be able to sell it up here, it would have to bypass a lot of the regulatory points.

Something like the Mayor said just now, or if you wanted to have more steps, so few steps that you're talking a kind of 30-day thing as opposed to the longer kind of period, it would help.

Mr. BARRY. Ms. Norton, another approach would be possibly requiring a simple majority. That would give local officials a greater say in this. This process works with the airport authority where the budget has to be approved by a simple majority. The District only has three votes, which means that one vote could make the simple majority, which gives you a chance to negotiate any differences by either locally appointed officials or people appointed by local people.

I think that ought to be looked at.

Ms. CROPP. Ms. Norton, that's what I was just getting ready to say. The simple majority is one way in which it could be handled. There is another possibility, and that is that anything dealing with the eminent domain issue would have to have the approval of the Mayor and the chair, who would be members of that.

Then, in doing that, it would also protect the interests of the District of Columbia citizens as a whole. And I think there are precedents established for that type of provision, also.

Ms. NORTON. So it does look like there are shortcuts here that you are already thinking about.

Thank you very much.

Mr. DAVIS. Thank you.

Mrs. Morella.

Mrs. MORELLA. Thank you. I appreciate your being willing to testify again before this subcommittee.

I want to look at the education point of view and issue. The District, no doubt, has many well-educated residents, but also a very high number of undereducated persons, who are untrained, unskilled, and unable to meet the expanding needs of the technological workplace.

I know the chairman has alluded to that. I just think that it's important that we look ahead, in terms of what we're going to do about that. Is there anything in the President's plan that you feel will address this problem?

I would address it to all of you.

Mr. BARRY. In terms of the President's plan, in the Economic Development Corp. there is $20 million that would be set aside for nonprofit organizations to train people in skill development, as well as just lifestyles, you know, how you come to work on time.

Unfortunately, the DC public school system is suffering from some of the same needs of other major cities. How do you reform this system? How do you make it work for the great majority of our students? That's General Becton's greatest challenge, I think, outside of getting books on time, et cetera. How do you get a larger number of young people graduating from our high schools with skills in the workplace?

I'm in the process of developing a proposal which I'm going to send to the schools; that is, that the DC school system ought to establish a specialized school of science and technology, similar to our Duke Ellington School for the Arts or Banneker Academic School.

There again, that's not going to give us any short-term solutions, but it seems to me that if we had a school that was in tune and in touch with the reality of technology development, we could train young people in the District who could take a number of those jobs that are vacant in Fairfax County and in Montgomery County.

But our schools need great reform. I don't have much control over that except to make commentary about it and urge them to do it, because the Control Board has set up this super board of trustees that has absolute control over the schools.

But that's a serious problem, Congresswoman. It is tragic that too many of our young people are not graduating from our high schools, 40 percent not graduating, and then even some of those who graduate don't have the skills to go to northern Virginia and other places to get these high-tech jobs that are out there.

Ms. JARVIS. Mrs. Morella, the Economic Development Corp.'s criteria for projects could include, as do our local criteria, that there be a training component of the development project.

For example, when we've done industrial revenue bond financing, the financing requirement is that there be a training program; when we did NPR, for example, that young people be trained in the area of audio technology; when we financed the AAAS, American Association for the Advancement of Science, a requirement that there be an internship program that would give young people access to science and science training.

It would be my recommendation that the corporation incorporate those kinds of training components in their criteria when evaluating the projects. The President's proposal does not specifically speak to that, but it certainly would be an authority of the corporation to make sure that that happens.

Ms. CROPP. Mrs. Morella, as we look at the President's plan, we have to also be careful that we don't look at it in isolation of everything else that we need to do in the District of Columbia.

When you talk about education and economy, we probably need to say the two E's. If we want a strong economy, then it means also that we must have a strong educational program, and they must go together, and it must be an integration of the two.

When you look at the reasons why businesses locate in certain jurisdictions, they look at who is graduating from the school system. And what that means is that there has to be a marriage of the two: economy and education. We need to have our business group, our economic group, to play a more integral part with our school system, to make sure that we are graduating students who will meet the needs of the work force, so that we can supply graduates to fill that particular work force.

So, while the President's plan has one component, as Ms. Jarvis was saying, with the training part of it, we must not take it in isolation of what we do with the rest of the city with education, we must start merging the two together, if we truly want to be successful, not only for the short term, but in the long term also.

Mrs. MORELLA. I couldn't agree with you more. I do agree a training component is critically important, but I also agree with the concept of a partnership, and maybe we will hear this from the Board of Trade in the next panel. You've got to pull your business community in to help you make these decisions, in terms of what they need, how they can help, and other community groups, too.

It isn't that we need rocket scientists, we need an awful lot of technicians, just plain technicians, to be trained and to know that this is a job that's going to have promise in the future.

Mr. BARRY. Mrs. Morella, we have a larger problem, and that is, our experience, or my experience, has been, it is difficult to get a significant number of DC residents to apply for and take these jobs in the suburbs. I don't know whether it's transportation that's a problem or whether it's just a cultural difference.

I don't know what it is, but we've found that, even when we have gotten people trained in some areas and have gotten them potential jobs in northern Virginia or in Montgomery County, they don't make it very long. They can do the work, but they just decide that, for some reason or other, it's—we've got to figure out how to deal with that.

Mrs. MORELLA. Well, we want to do both things. We want to demonstrate that we continue to support the Metro and it reaches out to the high-tech community, but we also want to make sure that there are jobs in the District of Columbia, too. And there are, I mean, there are, where these skills are needed. So they don't have to exit the District of Columbia for employment, they should be able to also find it in the District.

Could I ask just more question?

Mr. DAVIS. Sure. Let me just add to that.

Mrs. MORELLA. Yes.

Mr. DAVIS. We have a group of business leaders in northern Virginia prepared to step up any way they can to work, if transportation is the issue, to get qualified workers. It is a lot cheaper to worry about getting people out there than it is to have to move those jobs somewhere else. We can work through that as we go through.

A lot of these high technology businesses aren't on Metro lines at all. As you know, Mr. Bursoff of the Board of Trade, and others, have been working with you to try to get you a high technology school. I think you need more magnets to keep qualified people in the public school system and attract them back in. I think that is needed. So we will work with you.

Mr. BARRY. We'd like to get the names of the people, Congressman, so we can get busy, today, working on putting that coalition together and figuring out how to solve this problem.

Mr. DAVIS. Sure. We'll put it together. I'm meeting with the group.

Mrs. MORELLA. Listen, there's just no way you should leave out Montgomery County. We have a Suburban Maryland High Technology Council that is exquisite. But I also wanted to point out simply that we're not talking about people leaving the District of Columbia. We hope there will also be a presence—we know there is—where there are some of these jobs.

Mr. BARRY. We would welcome the same kind of information, Mrs. Morella. We will work diligently to get these groups together and begin to try to get something done.

Ms. CROPP. Mrs. Morella, I think it begs the question, also, that with over half of the District's children living below the poverty level, there's a great need for us to have early childhood development programs, and we encourage the Federal Government to continue funding the early childhood development programs. We have found that when our children start at an early age learning the outcome, it's so much more positive, and I think we will also see that impact the economy.

Mrs. MORELLA. Just no doubt about it. No doubt about it.

Just one brief question. Actually, the Council passed the Business Improvement District legislation, and I just wondered what this legislation does and how it can be utilized with the President's plan.

Ms. JARVIS. Mrs. Morella, the Business Improvement District legislation authorizes the establishment of self-taxing business districts. Those districts create a pool of money which then stays within the confines of that geographical business improvement district, and those dollars are used to create an additional security force, or they are used to create an additional cleaning force for the area.

They are remarkably effective because they do what is critical in commercial areas, which is to create an environment which is clean and safe. People in brightly colored jackets are seen sweeping the streets. People in brightly colored jackets, with two-way walkie-talkies are seen communicating with one another and with the Police Department. They are walking customers to their cars or to the parking lot, and creating a sense of safety and cleanliness.

There are 1,000 business improvement districts in 700 cities throughout the United States, which have been remarkable in their ability to attract a customer base. We are very fortunate in the District that Bob Peck, at GSA, has now indicated a willingness for GSA to participate in the business improvement districts, at least for those buildings where GSA has tenants. They can then pass through the taxes that are imposed on those tenants, through to the business improvement district, and that will really augment the ability of downtown business districts to thrive.

We are expecting to see the first such bid just before the opening of the arena, so that when 20,000 people come to Washington or come from other places within the city to see those games, they will see those brightly colored security forces and cleanup crews, and there will be a sense of safety and cleanliness that will be, in fact, occurring.

Mrs. MORELLA. Thank you. Thank you very much.

Mr. DAVIS. I would just add, that with the area around the Navy Yard, you could have a critical mass down there, because of the Federal Government. You know what Virginia has done to Crystal City when they had that kind of mass there.

Appropriate planning and zoning will be critical because there's going to be a lot of neighborhood complaints. People are not going to understand the changes coming in, or they may sometimes resent the changes, but from a citywide perspective, if you're talking about an information technology private sector base, you have a great opportunity there.

Ms. JARVIS. And you put your finger, Mr. Chairman, on the real reason that this corporation is so vital, because the corporation then can assemble the property, get through all the regulatory hurdles, and keep a singular focus on getting that kind of assembly going.

And you mention a very important area of the city, because, first of all, there's water, and the waterfront can be developed. Second of all, that area of the city has been identified by NCPC as a focus for its monumental core plan, and would be one of the first steps in getting the monumental core plan off of the ground.

It would be a wonderful first step for this corporation to focus just on that area, because there is opportunity for commercial, retail, housing, and entertainment complexes in that area, which would bring a whole new destination for visitors and for our own regional visitors to go to that center. So it would create a whole new destination for us.

Mr. DAVIS. And a new destiny for that area.

Mr. BARRY. Mr. Chairman, David Watts, who is the deputy city administrator, chairs an action task force now that is looking at the Navy Yard, the Federal Southeast Center, from North Capitol over to 11th Street, and from M Street down to the waterfront.

I am going to ask him to extend their work from the freeway on over to M Street, because if you go down in Southeast from South Capitol to 11th Street, you find a lot of abandoned buildings there. So we ought to do area planning, not just for the Federal portion of that.

Mr. DAVIS. I agree. I agree.

Mr. BARRY. This task force would have both Federal, private sector, and government people on it, to come up with a comprehensive plan and direction.

Mr. DAVIS. But talk is cheap. I mean, these are hard decisions, and there is going to be opposition to it, because people are going to see their neighborhoods changing. We've been through this. These are royal battles in the suburbs. But this is a great test for the city, because it's a great economic development opportunity for the city to open up a whole new quarter for quality economic development, job growth, tax base, all the things that go with it.

Charlene, I know you're on top of this. I've heard good things about some of the work you all are doing there, but we need to stay with it. This corporation, like you know, can give it the appropriate focus. So it's up to all of us.

Ms. JARVIS. And it gives the insulation. Mr. Chairman, you recognize the problems in development.

Mr. DAVIS. I've been there.

Ms. JARVIS. There has to be a good balance between insulation and input from the public, in order to get development done. And it's a hard thing to do.

Mr. DAVIS. I understand.

Well, I thank all of you. I appreciate you all being here.

Mr. BARRY. Also, Mr. Chairman, I would like to share, when we get the reports for the Business Regulatory Commission, share that with you, so you can see exactly.

Mr. DAVIS. I would be happy to do that. And we're going to sit down, Mr. Mayor, you and me, over some of this legislation, as we talked about yesterday, over the next few days.

Mr. BARRY. I'm sorry we got into this tiff about residents.

Mr. DAVIS. Well, we don't agree on everything. At least we can talk about it, and we keep talking. Right?

Mr. BARRY. All right.

Mr. DAVIS. We'll work it out. We want the same end, and I think that's important.

We have a vote on the floor.

Mrs. Morella, if you want to go over and vote now, I can keep the hearing going. And then you can come right back, and then I will go. Do you want to try that?

Let's hold our next panel. We call up Roger Blunt, chairman of the Greater Washington Board of Trade; John Green, the president of the District of Columbia Chamber of Commerce; and Craig Schelter, the executive vice president of the Philadelphia Industrial Development Corp. We appreciate everybody being here.

If you would rise with me, I have to swear you in.

[Witnesses sworn.]

Mr. DAVIS. Thank you very much.

I ask unanimous consent that any written statements be made part of the permanent record. As I have requested of the previous witnesses, please limit your oral statements to no more than 5 minutes in order to leave time for questions.

At this time, I would ask Mr. Blunt to testify, followed by Mr. Green, and then Mr. Schelter. We appreciate you all being here.

Roger.

STATEMENTS OF ROGER BLUNT, CHAIRMAN, GREATER WASHINGTON BOARD OF TRADE; JOHN L. GREEN, PRESIDENT, DC CHAMBER OF COMMERCE; AND CRAIG SCHELTER, EXECUTIVE VICE PRESIDENT, PHILADELPHIA INDUSTRIAL DEVELOPMENT CORP.

Mr. BLUNT. Thank you.

Chairman Davis and members of the subcommittee, thank you for convening today's hearing on the President's proposals to promote economic development in the Nation's Capital and for the opportunity to testify before you.

For the record, my name is Roger Blunt, and I am chairman and CEO of Essex Construction Corp. I am here today in my capacity as co-chair of the National Capital Task Force of the Greater Washington Board of Trade.

Today, you have asked us to comment on the potential effectiveness of the President's proposals to promote economic development in the District, placing special emphasis on the proposal to create an Economic Development Corp. I will base my comments today on the plan as it has been articulated in the final Memorandum of Understanding.

When I last appeared before the subcommittee, I testified that the Board of Trade believes there must be three fundamental elements in place if we are to restore the city. The first was a functioning, accountable, and efficient local government; the second, a clearly defined partnership between the Federal and local governments; and third, an emphasis on economic development and the availability of adequate resources.

The Board of Trade believes the economic development portions of the President's plan to help revitalize the Nation's Capital are critical to the overall effort to restore financial stability and economic viability. Let me start by painting a picture of the landscape as we see it.

There are several efforts to address economic development already underway. Some efforts are being led by the District government and some by the private sector, but there is no overall coordination of these initiatives. With this background in mind, we have three concerns about the establishment of an Economic Development Corp.

First, the mission of the Economic Development Corp. must be clearly defined, so as to maximize its effectiveness by appropriately collaborating with current efforts to address economic development needs within the local government.

The Economic Development Corp. will come into existence while several other groups are already at work. Its mission in relation to the other groups is not clear. Will it be responsible for physical development? Will it develop the plans and then let a contract for the actual development? Or will the Economic Development Corp. be the catalyst for projects of scale, projects which are outside of the traditional capabilities of the District government or other locally based organizations?

Second, the composition of the board of directors of the Economic Development Corp. should represent neighborhood businesses as well as larger corporate interests, and it should not preclude the inclusion of local talent and resources.

We recommend that some thought should be given to having representation from a wide array of businesses as they relate to the size of the corporation, the industry, and that all members have citywide interests.

Further, we feel that, by definition, some good people may not be eligible to serve on this board, and that the Economic Development

Corp. would miss an opportunity to benefit from regional talent and resources. Here we would hope that owners of non-District businesses, who may not be District residents, could be considered for appointment to the board.

As an aside, I would point out that, while it's stated on occasion that private enterprises are not fully engaged in the District, I would point out that for several years we've been absolutely engaged. In fact, we have several initiatives already underway.

The 1,100 businesses in the private sector, members of the Board of Trade, come from Virginia and Maryland, principally. And I would point out that they are very concerned that the core of this region has to be healthy if we as a region are to survive.

Third, the authority to exercise the power of eminent domain must be clearly defined, providing appropriate checks and balances to prevent the arbitrary use of this tool in establishing procedural timelines for the decisionmaking process. Conscious as we are of the Economic Development Corp.'s need to be able to exercise the powers of eminent domain, we generally support the concept, with some caveats.

First, the process for exercising this power must be clearly defined. Second, there must be some checks and balances.

Ms. NORTON. Mr. Chairman. Mr. Chairman.

Could I beg your indulgence?

Mr. BLUNT. Surely.

Ms. NORTON. I am due someplace by car that I can't possibly get to by 12 noon. I wanted to apologize to this panel, which I had so looked forward to hearing, because I think their part in the Economic Development Corp. is absolutely critical. I want to personally apologize to the three of you that there is no way for me to wait any longer. That has nothing to do with you; it has to do with us and our questions.

I want to ask leave of the chairman if I may submit questions beyond what may already be clarified in the testimony.

So ordered. [Laughter.]

Mr. DAVIS. If she says it, it must be.

So ordered.

Mr. BLUNT. Knowing that the testimony is in the record, this concludes my remarks.

[The prepared statement of Mr. Blunt follows:]

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Statement before the
U. S. House of Representatives
Subcommittee on the District of Columbia

May 22, 1997

Chairman Davis and members of the Subcommittee, thank you for convening today's hearing on the President's proposals to promote economic development in the Nation's Capital, and for the opportunity to testify before you. For the record, my name is Roger Blunt, and I am the Chairman and CEO of Essex Construction Corporation. I am here today in my capacity as the Co-chair of the National Capital Task Force and a member of the Board of Directors of the Greater Washington Board of Trade.

The Board of Trade is a *regional* chamber of commerce representing more than 1,100 businesses and professional organizations in the District of Columbia, Northern Virginia and Suburban Maryland. For more than 100 years, the Board of Trade has been involved in issues affecting governance, management and economic growth of the Nation's Capital.

Today, you have asked us to comment on the potential effectiveness of the President's proposals to promote economic development in the District, placing special emphasis on the proposal to create an economic development corporation. I will base my comments today on the plan as it has been articulated in the final Memorandum of Understanding.

When I last appeared before this subcommittee, I testified that the Board of Trade believes there must be three fundamental elements in place if we are to restore the city. **The first was a functioning, accountable and efficient local government; the second, a clearly defined partnership between the federal and local governments; and third, an emphasis on economic development and the availability of adequate resources.** The Board of Trade believes the economic development portions of the President's plan to help revitalize the Nation's Capital are critical to the overall effort to restore financial stability and economic viability. However, we do have a few concerns that we believe can be easily addressed.

Let me start by painting a picture of the landscape as we see it. There are several efforts to address economic development already underway. **First,** the Executive Branch of the local government is currently working to develop an Office of Business Development, where special emphasis would be placed on retaining businesses already located in the city. **Second,** the DC Council recently approved the creation of a Business Promotion Corporation, which would focus its efforts on attracting new businesses into the city. **Third,** there are a number of private sector-led economic development proposals—namely the proposal to redevelop the New York Avenue corridor and the Interactive Downtown Task Force's plan to revitalize the downtown area.

We are concerned that after many years of essentially no emphasis on economic development, the number of entities focusing on various elements of economic development will—under the best of circumstances—create significant confusion about who is responsible for what. The Board of Trade is prepared to work with the local government to help coordinate these activities, but we recommend that this subcommittee be especially mindful of the various efforts and how they would be connected.

With this background in mind, we have three concerns about the establishment of an Economic Development Corporation.

1. **The mission of the Economic Development Corporation must be clearly defined so as to maximize its effectiveness by appropriately collaborating with current efforts to address economic development needs within the local government.**

The Economic Development Corporation will come into existence while the aforementioned entities are already at work. Its mission, in relation to the other groups, is not clear. Will it be responsible for physical development? Will it develop the plans and then let a contract for the actual development? Or will the Economic Development Corporation be the catalyst for **projects of scale**: projects which are outside of the traditional capabilities of the District government or other locally based organizations?

With the many other efforts underway, it will be critical that the Economic Development Corporation's mission is clearly defined, and that it can coordinate and enhance the economic development efforts of the local government. We recommend that the new Economic Development Corporation be developed primarily as the catalyst for developing and managing the implementation of projects of scale, or projects which are outside of the traditional capabilities of the District government or other locally-based organizations.

2. **The composition of the Board of Directors of the Economic Development Corporation should represent neighborhood businesses as well as larger corporate interests, and it should not preclude the inclusion of regional talent and resources.**

As you know, the President's plan calls for a nine member Board of Directors, five of whom would be appointed by the President in consultation with Congress. Of those five, four would be from the for-profit business community and one from community based organizations. In addition, the Mayor would appoint one member from either a for-profit business activity or a community-based organization. The remaining three board members would be ex officio members—one chosen by the President from the Federal government, one by the Mayor from the District government, and a third by the DC Council from the District government.

The Board of Trade recommends that the four members who will be selected from the for-profit community should represent a wide array of businesses, in terms of size, industry, and location. We are particularly interested in seeing entrepreneurs in the neighborhoods represented on the Board. Further, we recommend that Board eligibility be extended to individuals that have an established business presence in the greater Washington region. Otherwise, the Economic Development Corporation would miss an opportunity to benefit from regional talent and resources.

For example, according to the Memorandum of Understanding, neither my co-chair of the National Capital Task Force, Ed Bersoff, nor I would be eligible to serve on the Economic Development Corporation. Ed's business is in Virginia, mine is in Maryland, and neither of us are District residents. However, both of us, and others as well, have a great interest in improving the District's economy and our businesses are affected by what goes on in the District. Statistics have demonstrated the connection between business activity in the Nation's Capital and the positive impact on economies in the surrounding jurisdictions, regional participation in the EDC could be very beneficial to the city and the entire region.

Further, one Presidential appointee would be selected from community based organizations. We would encourage this committee to stipulate that the District's community development corporations be favored over other types of community based organizations in light of the CDCs' direct involvement in neighborhood economic development.

3. **The authority to exercise the power of eminent domain must be clearly defined, providing appropriate checks and balances to prevent the arbitrary use of this tool and establishing procedural timelines for the decision making process.**

The Board of Trade feels strongly that eminent domain is a tool that must be available to any Economic Development Corporation that may be created so that the corporation can expedite development opportunities. However, we also are sensitive to the concerns that have been raised about how this authority could be exercised, and would agree that certain safeguards should be adopted to ensure that the powers of eminent domain were used only in cases where there were legitimate and significant economic gains. We recommend that the framework outlined by D.C. Code 16-1311 be considered as a means for allaying concerns about how the power of eminent domain will be used.

Tax Incentives

In order to ensure that efforts to promote economic development are effective, it is critical that the necessary resources are available. The President's plan to offer $250 million in tax incentives offers such resources. As I stated in my testimony to you in March, the tax incentives outlined in the President's plan would offer some incentives to businesses of all types and sizes throughout the city. However, we recommend that the proposed jobs credit be extended to businesses throughout the region. Specifically, we know that there is an existing job gap in the suburbs that, with the proper training, many District residents would be able to fill. By providing businesses throughout the region with incentives to access this underutilized labor pool, this subcommittee could dramatically improve the city's employment rate and at the same time encourage economic growth throughout the entire region.

The Board of Trade also recognizes that tax incentives alone cannot overcome all of the problems that have contributed to the city's economic decline; there are many local impediments which must be addressed. Our research shows that the city cannot effectively compete for economic development because many of its business costs are out of scale with the surrounding jurisdictions. There are four specific taxes which especially place the District at a competitive disadvantage with its neighbors in Maryland and Virginia:

1) Personal Income Tax
2) General Sales Tax
3) Corporate Franchise Tax
4) Unemployment Insurance Rates

To further illustrate our point, we have attached a copy of our December 12, 1996 testimony to the D.C. Tax Revision Commission which outlines the details of these taxes, and request that it be included in the record. Consistent with our public statements before the Council of the District of Columbia, the Financial Responsibility Authority and the D.C. Tax Revision Commission, these taxes must be reduced if the city is going to become economically competitive. Additionally, we would note that the consolidation of business related agencies within the District government must be given special attention.

Finally, we are concerned that the draft Memorandum of Understanding has omitted the originally proposed $50 million in seed capital. Without access to cash, the efforts of the economic development corporation would have to be funded out of existing budgets in an already constrained budget environment, and therefore, will likely not receive the priority necessary to establish an ambitious effort. We would urge this committee to reconsider the commitment of cash resources to this important effort.

The Convention Center

An important key to the future economic development in the city's downtown area is the proposed convention center. This project has been under development for several years, and we understand that the convention center authority is reaching the point now where it is trying to work out the final details on the financing and design. Chairman Davis, you know the status of these efforts better than I, but we are concerned about the limited time frame facing this project. Although there are many details that must still be resolved, we would urge this subcommittee to include within this legislation the necessary authorization to ensure that the convention center project can be taken to the bond market as soon as it is ready to go.

Other Items

There are other economic development tools and policies that should be considered as part of your deliberations. For example, Tax Increment Financing is a mechanism that is in use in states and municipalities across the country and can be a great tool for encouraging the development of projects of scale. The District currently is not authorized to use Tax Increment Financing.

In addition, this committee should consider reinforcing the federal government's commitment to locating new GSA owned or leased offices within the downtown core, particularly when such office development can actively reinforce retail and entertainment development.

And on a final note, this committee cannot consider economic development without considering the impact of the proposed Transportation Infrastructure Fund. While the jury is still out as to whether transportation systems bring economic development or vice versa, the linkage between mobility and the economy is undeniable. The city's crumbling infrastructure—both local and federal roads as well as the Metro system—must be taken into consideration.

Mr. Chairman and members of the subcommittee, I'd like to thank you for this opportunity to testify before you today. I commend you for your consideration of these proposals, and would be happy to answer any questions that you may have.

TESTIMONY

by

TED TRABUE
Staff Director for Maryland & D.C. Public Affairs

at the
THE GREATER WASHINGTON BOARD OF TRADE

District of Columbia Tax Revision Commission

at the
PUBLIC HEARING ON THE DISTRICT OF COLUMBIA
TAX AND REVENUE SYSTEM

DECEMBER 12, 1996

Our Lady of Perpetual Help
1600 Morris Road, S.E.

Good evening, Chairman Ebel, Members of the Tax Revision Commission. For the record, my name is Ted Trabue, Staff Director for Maryland and District of Columbia Public Affairs at the Greater Washington Board of Trade.

Chairman Ebel, the Greater Washington Board of Trade, as the regional Chamber of Commerce for the National Capital Region, speaks out for over eleven hundred businesses and professional firms. Our membership is an integral part of the District's economic life and its tax-paying base. Economic Development decisions, as well as taxation and tax policy decisions of the District Government, directly impact many of our member firms. As you and this commission are well aware, one of the Board of Trade's primary missions is business retention, recruitment and attraction to the greater Washington region.

Mr. Chairman, in order to assist us in our examination of taxes in this region, the Tax Policy Economics group of Coopers & Lybrand L.L.P., prepared a Comparative Tax Report for the Greater Washington Board of Trade. The goal of this report was to compile and provide information on taxes faced by businesses who might have an interest in locating or expanding in the greater Washington area. Information was compiled for eight counties in Maryland, ten counties in Virginia, and the District of Columbia. Additionally, information was gathered from eleven counties/cities throughout the United States, and the group looked at Toronto, Ontario.

As you may know, the Board of Trade feels that the District's personal income and business taxes place the District at a competitive disadvantage with our neighbors in Maryland and Virginia. Not only is the District competing with the aforementioned jurisdictions for residents and businesses, we are competing nationally as well. I will now go into the details of the study.

It is the Board of Trade's hope that the recommendations and actions of this Commission will advance the goal bringing tax and business cost parity among the region's jurisdictions. My testimony will focus on taxes in four specific areas: personal income, sales, corporate income and unemployment insurance taxes. We have found that these taxes are key factors in the equation when businesses are making decisions about where to locate.

The first issue which is examined in the report is personal income taxes. In Maryland, which is considering a 10% reduction in this category, personal income is taxed at a rate of 5%. The same tax in Virginia is 5.75%. The District, however, maintains a top rate of 9.5%. At its current rate, the District's tax rate is almost 3 to 4 percent higher than our immediate surrounding jurisdictions.

Regarding sales taxes, we realize that each jurisdiction maintains slightly different policies in this area. The general sales tax rate for the state of Maryland is 5%. In the Commonwealth, the sales tax rate is 4.5%. The District, highest in the region in this category, maintains a rate of 5.75%.

Next, the Corporate Franchise Tax has been a lead issue for the Board of Trade for the past year. Conscious as we are of the District's fiscal situation, and with an understanding of the regional economy, we feel compelled to state that the disparity in rates between the District's tax and the same tax in the surrounding jurisdictions is unacceptable. Maryland has a Corporate Franchise Tax of 7%. Virginia taxes its corporations at 6%. The District's tax in this category is 9.975%. We feel very strongly that this tax puts the District in a very uncompetitive posture with its neighbors. It costs more to start a business and create jobs in the District.

Finally, the study compared Unemployment Insurance rates in the three jurisdictions. Maryland's rate for new employees is 2.3% and the taxable wage base is $8,500. Virginia's rate for new employees is 2.5% and the taxable wage base is $8,000. In the District, the rate for new employees is 3.3%, and the taxable wage base is $10,000. Again, the District is more expensive that its neighbors in both rate and base wages.

The above is intended to serve as an example of a few different areas in which the District, by virtue of its tax policies, is not competitive with the surrounding jurisdictions, and therefore is a less attractive place in which to locate a business and grow jobs. Our testimony today only touched upon four areas. The Comparative Tax Study looks at many other categories of taxes. I will forward a copy of the study for the Committee if you do not already have one.

When you look at the regional study, you will realize that the District's tax policies cause a much greater burden on businesses within the District, and serve as a disincentive to businesses looking to locate in the District.

Additionally, I would like to note that the Board of Trade has presented testimony to various committees of the City Council. At that time, we outlined problems in the current tax law which relate to net operating losses, dividend income and foreign source income as some of the most often encountered disincentives for business location and retention in the District.

Mr. Chairman, everyone in this room knows that the District is in a fiscal crisis. The Board of Trade believes that along with efforts to restrain spending and address structural problems, measures to stimulate economic development and job creation are steps that the District must take to regain its fiscal health. If the employer base continues to exit, the taxes counted on by the City and Control Board's projections will not be realized - further reducing revenues. Moving toward tax parity between the District and the surrounding jurisdictions will help create the jobs which will be needed to assist the District in its efforts to comply with Welfare Reform mandates.

Tonight, we have attached several charts to our testimony. Earlier, I mentioned that the Greater Washington Initiative goes out to several cities throughout the world to market this region as a good place to locate a business. When they take their marketing trips, in order to demonstrate the region's competitive business tax climate, they show prospective businesses the first four charts which are attached to our testimony. Nationally, the greater Washington region compares very favorably to other metropolitan areas.

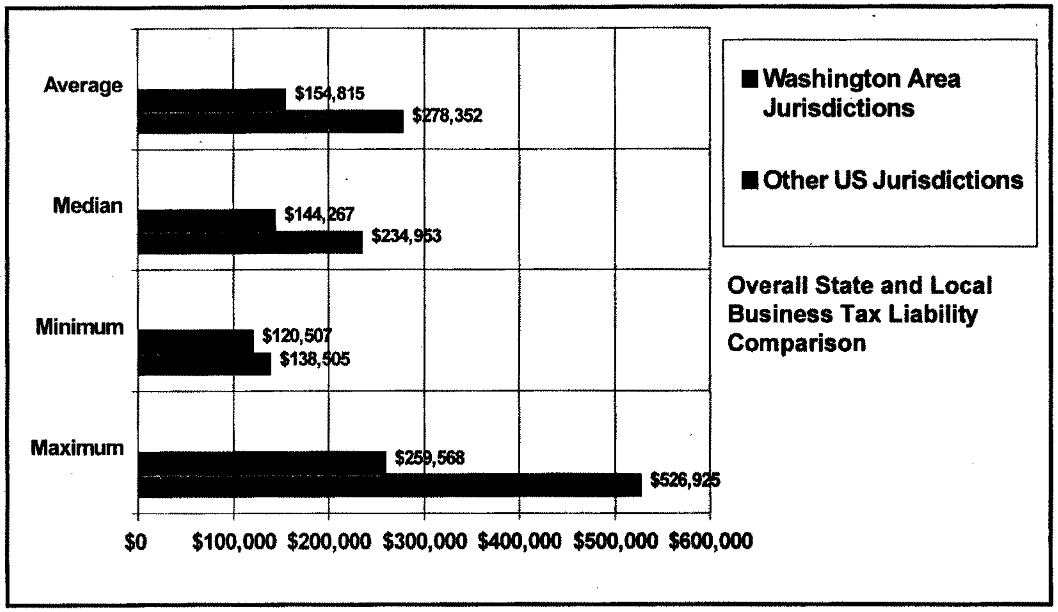
However, when you break down the regional statistics and look at individual jurisdictions, the cost of doing business in the District is dramatically higher than it is in the suburbs.

The last 4 charts in this packet examine state and local tax bills for 4 hypothetical companies with like sales, assets and income. They compare the District of Columbia to 7 surrounding counties. These counties are some of our closest competitors. When you look at the disparity in the cost of doing business, it is easy to understand why the District has a difficult time attracting and retaining businesses.

The Board of Trade urges this commission, in its review of the District's tax structure, to understand the importance of moving the District into a more competitive position by making its taxes more competitive within the region.

The Board of Trade will continue to work with this commission, the Department of Finance and Revenue, and the Control Board on issues regarding taxation and tax policy. Again, on behalf of the Greater Washington Board of Trade, I would like to thank you for giving us this opportunity to present testimony to the Committee, and I would be happy to answer any questions you may have .

Corporate Headquarters Business Services

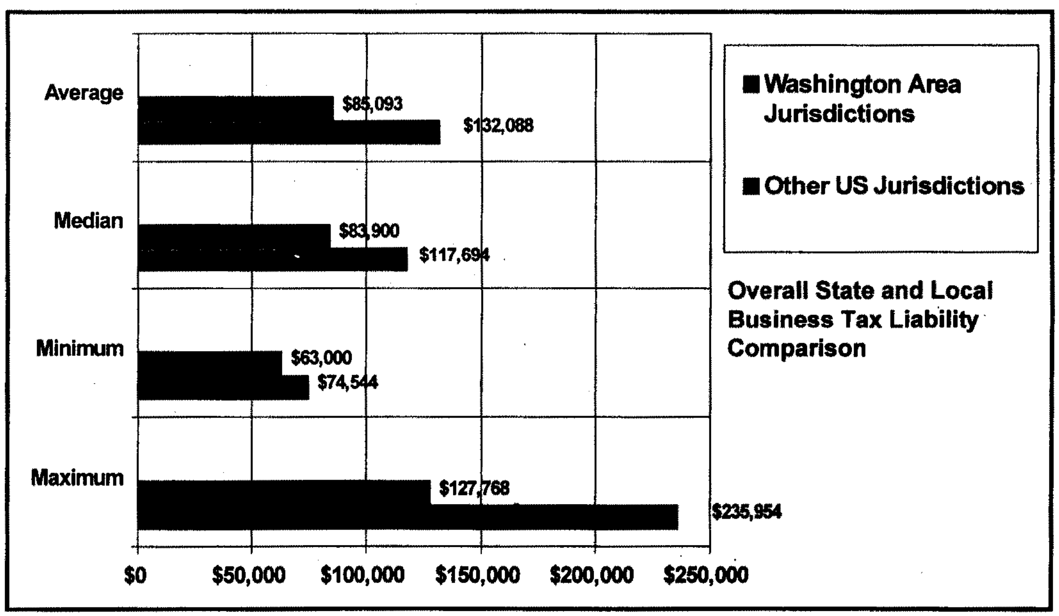


Data does not include: federal tax liability, state and local taxes on utilities, and mandatory state unemployment compensation.

Jurisdictions compared to the Greater Washington region are: Orange & Santa Clara County, CA; Fairfield County, CT; Fulton County, GA; Chicago, IL; Boston MA; Raleigh/Durham, NC; Somerset County, NJ; New York City, Westchester County, NY; Philadelphia, PA; Toronto, ON.

Source: Coopers & Lybrand, Greater Washington Initiative

Information Technology Companies

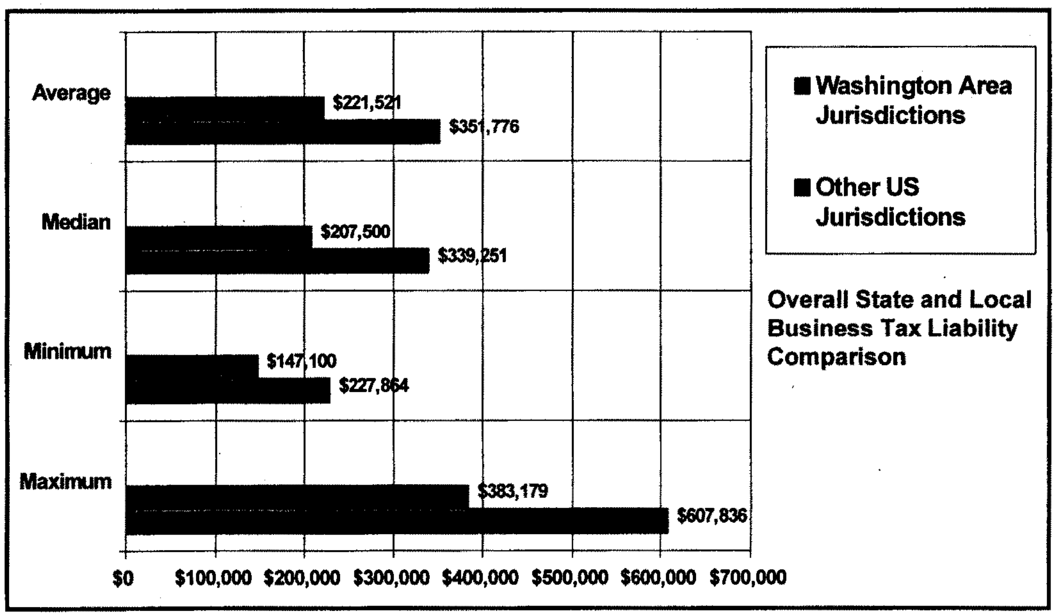


Data does not include: federal tax liability, state and local taxes on utilities, and mandatory state unemployment compensation.

Jurisdictions compared to the Greater Washington region are: Orange & Santa Clara County, CA; Fairfield County, CT; Fulton County, GA; Chicago, IL; Boston MA; Raleigh/Durham, NC; Somerset County, NJ; New York City, Westchester County, NY; Philadelphia, PA; Toronto, ON.

Source: Coopers & Lybrand, Greater Washington Initiative

Biotechnology Manufacturing Companies

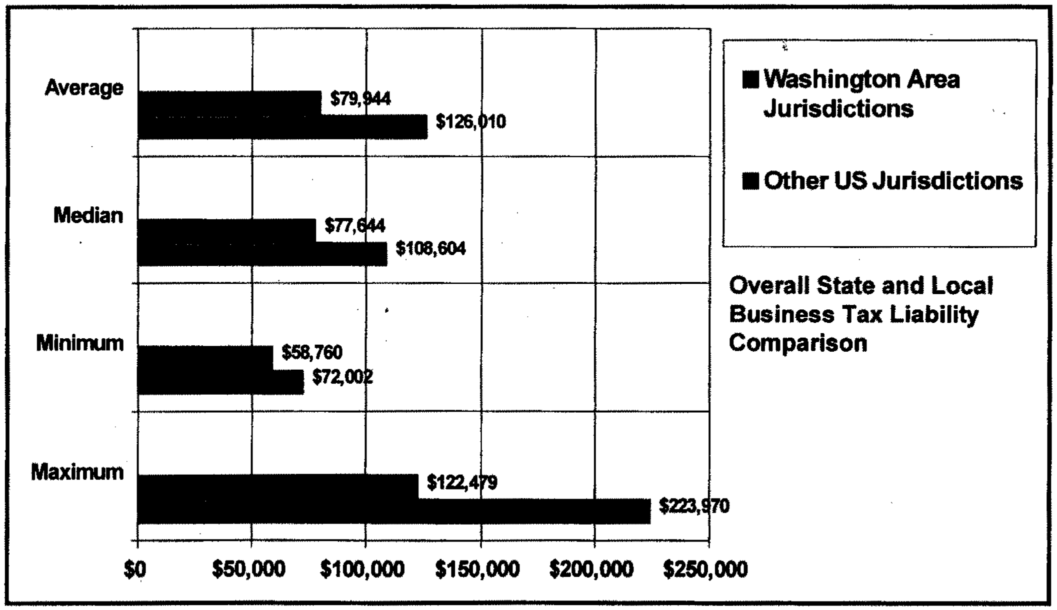


Data does not include: federal tax liability, state and local taxes on utilities, and mandatory state unemployment compensation.

Jurisdictions compared to the Greater Washington region are: Orange & Santa Clara County, CA; Fairfield County, CT; Fulton County, GA; Chicago, IL; Boston MA; Raleigh/Durham, NC; Somerset County, NJ; New York City, Westchester County, NY; Philadelphia, PA; Toronto, ON.

Source: Coopers & Lybrand, Greater Washington Initiative

Non-Manufacturing R&D

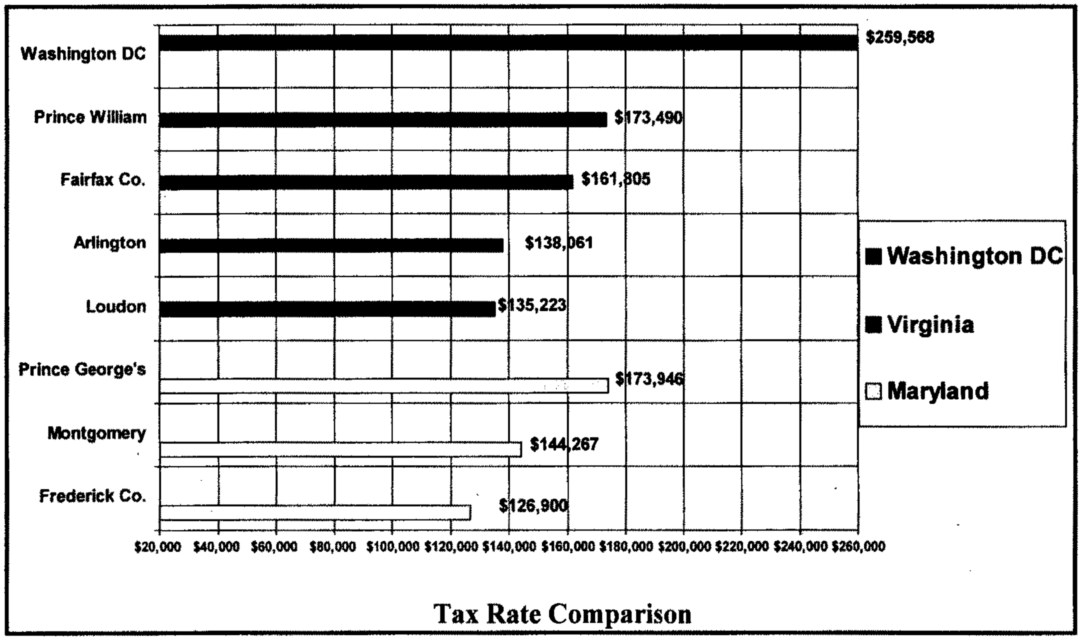


Data does not include: federal tax liability, state and local taxes on utilities, and mandatory state unemployment compensation.

Jurisdictions compared to the Greater Washington region are: Orange & Santa Clara County, CA; Fairfield County, CT; Fulton County, GA; Chicago, IL; Boston MA; Raleigh/Durham, NC; Somerset County, NJ; New York City, Westchester County, NY; Philadelphia, PA; Toronto, ON.

Source: Coopers & Lybrand, Greater Washington Initiative

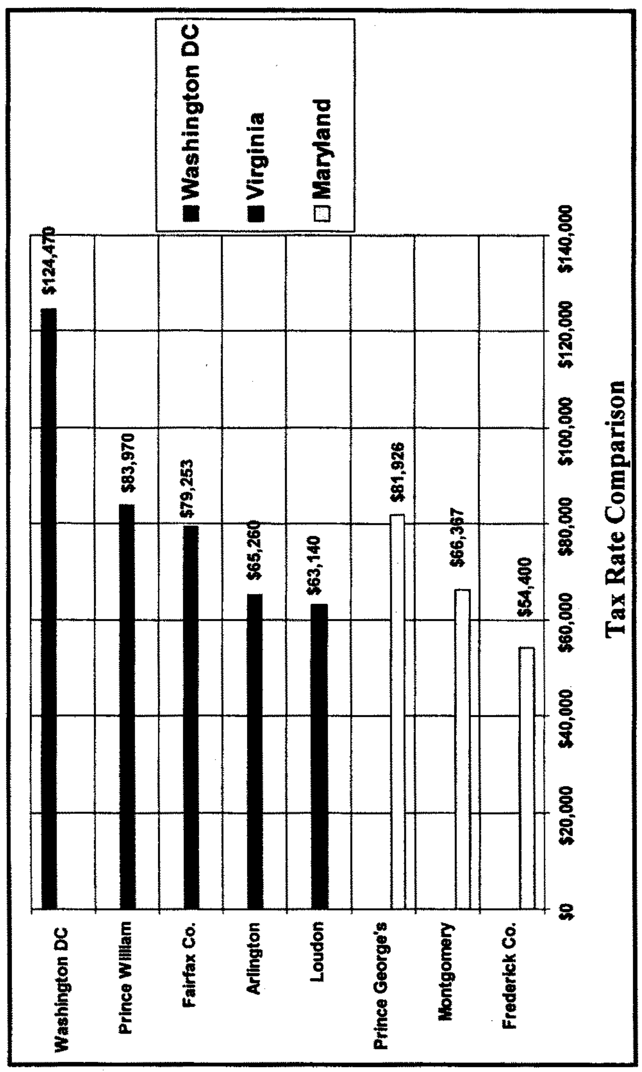
Corporate Headquarters



Combined state-and-local tax bill for four hypothetical companies. All figures are based on like sales, like assets and like income.

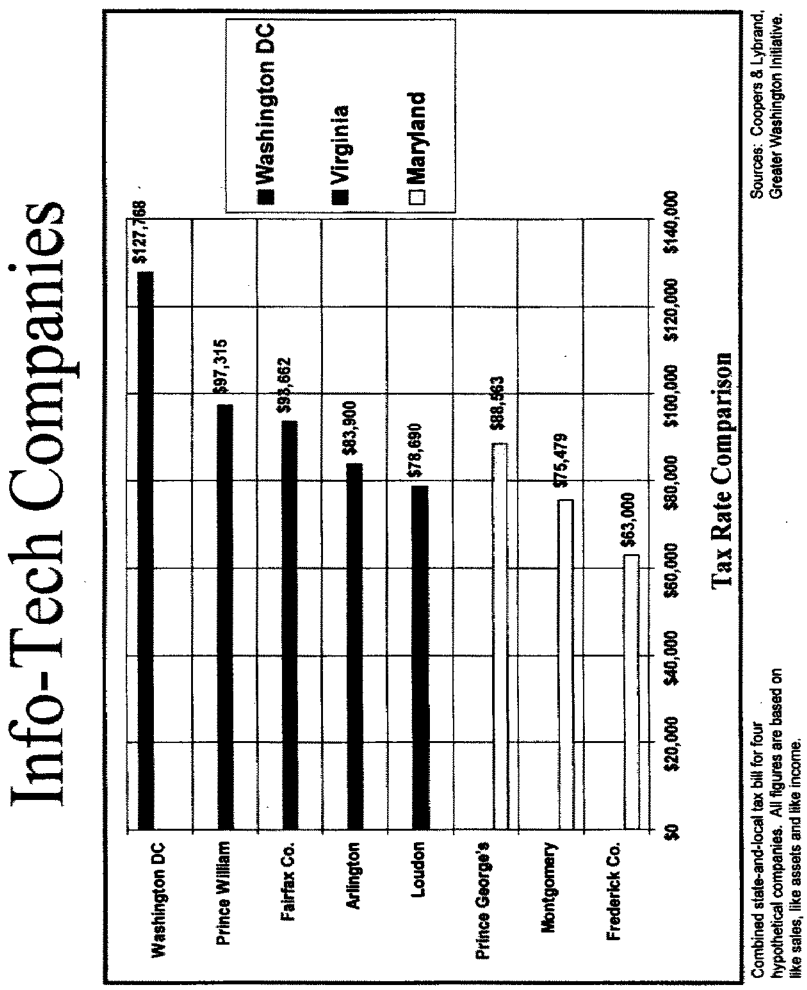
Sources: Coopers & Lybrand, Greater Washington Initiative.

Association Headquarters

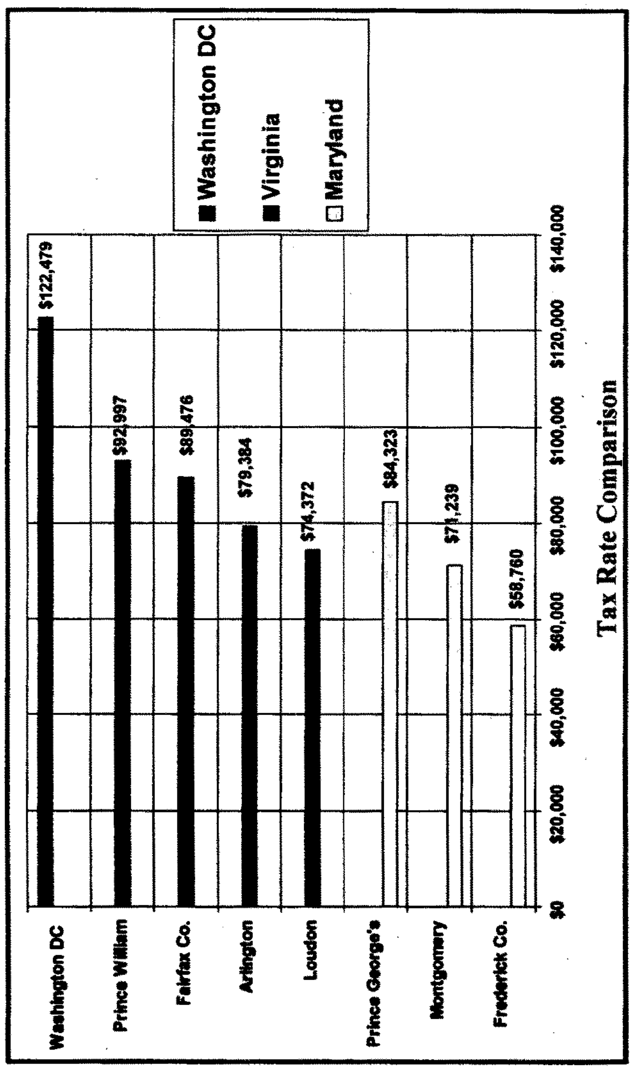


Combined state-and-local tax bill for four hypothetical companies. All figures are based on like sales, like assets and like income.

Sources: Coopers & Lybrand, Greater Washington Initiative.


Info-Tech Companies
Washington DC
Virginia
Maryland
Washington DC
Prince William
Fairfax Co.
Arlington
Loudon
Prince George's
Montgomery
Frederick Co.
$127,768
$97,315
$93,662
$83,900
$78,690
$88,563
$75,479
$63,000
$0
$20,000
$40,000
$60,000
$80,000
$100,000
$120,000
$140,000
Tax Rate Comparison
Combined state-and-local tax bill for four hypothetical companies. All figures are based on like sales, like assets and like income.
Sources: Coopers & Lybrand, Greater Washington Initiative.

R&D Companies



Combined state-and-local tax bill for four hypothetical companies. All figures are based on like sales, like assets and like income.

Sources: Coopers & Lybrand, Greater Washington Initiative.

Mr. DAVIS. Roger, thank you very much.

Mr. Green.

I'm going to leave in 5 minutes to go over to vote, and Mrs. Morella will come back. And then I will be back after that. That's how we rotate the voting back and forth.

Everything is in the record, and we appreciate your being here.

Mr. Schelter, we appreciate your coming down from Philadelphia.

Mr. GREEN. Well, I will be very brief.

Good morning, Congressman Davis and members of the House District of Columbia Subcommittee. My name is John L. Green. I am executive vice president of the Medlantic Health Care Group, and I am here today in my role as president of the DC Chamber of Commerce.

Before I begin, I would like to thank you for inviting me to testify on what we believe is an opportunity for the District of Columbia to realize its potential to be a world class capital for government, for business, and hopefully, for residential life.

Since we testified before you in February, we understand that there have been well over 100 hours of meetings and negotiations between representatives of the executive branch, the Council, the DC Control Board, the Mayor, and the Congress in developing the MOU.

While we do not completely agree with the MOU, we understand its value as a foundation upon which we can build. We want to underscore our earlier testimony and emphasize that we believe that the District of Columbia must be a good value in order to attract residents and businesses. It's the core of the region.

However, in addition to commenting on the economic development portion of the President's plan, I would like to take a couple minutes and just comment on what we believe to be important as an environment and a context for economic development. The President's plan does not address some of these areas.

For example, there is no revenue strategy, tax relief, or a Federal payment, and we think that they are going to be important in terms of creating an environment for economic development. The DC Chamber supports tax relief for businesses and individuals, such as that offered by Congresswoman Norton's DC Economic Recovery Act. That would jump-start the DC economy and rebuild our tax base.

The President's plan, as I said earlier, does not contain a reference to a Federal payment. The DC Chamber of Commerce believes that this is a shortcoming that the Congress can and should address. We do not believe that the Economic Development Corp. will move forward fast enough in order to accommodate that period of time in which the District would be without a sound revenue source.

The DC Chamber of Commerce fully supports the creation of the Economic Development Corp., the core of the city's economic recovery. The EDC provides an infrastructure to support businesses that might otherwise leave the city and a mechanism to attract new businesses to the city.

We are pleased that the six appointed board members of the EDC will either be persons who maintain a primary residence or have a primary place of business in the District.

I am going to short-circuit my testimony—it is in the record—and indicate that we are supportive of the concept of the Economic Development Corp. There are questions that must be answered. However, we also believe that there is a need for a comprehensive plan for the District. Economic development alone, without the right regulatory environment, tax relief, and ease of doing business in the District, all of those are needed along with some form or shape of the Federal payment.

[The prepared statement of Mr. Green follows:]

Good morning, Congressman Davis, Congresswoman Norton and members of the House District of Columbia Subcommittee, my name is John L. Green. I am Executive Vice President of Medlantic Healthcare Group and I am here today in my role as President of the DC Chamber of Commerce. Before I begin, I would like to thank you for inviting me to testify on what we believe is an opportunity for the District of Columbia to realize its potential to be a world class capital for government and business.

Since we testified before you in February, we understand that there were well over a hundred hours of meetings and negotiations between representatives of the Executive Branch, the D.C. Council, the D.C. Control Board, the Mayor and Congress in developing the Memorandum of Understanding. While we do not agree completely with the MOU, we understand its value as a foundation upon which we can build a plan for the city's revitalization.

We want to underscore our earlier testimony and emphasize that we believe that the District of Columbia must be a "good value" in order to attract residents and businesses. We define a "good value" as being financially competitive, providing quality services and a safe and attractive environment. The President's Plan does address some of these areas. However, the Plan does not provide a revenue strategy, tax relief or a Federal payment that we would like to have included.

The D. C. Chamber supports tax relief for businesses and individuals, such as that offered by Congresswoman Norton's "D.C. Economic Recovery Act", that will jump start the D.C. economy and rebuild our tax base.

The President's Plan contains no reference to a Federal payment. The DC Chamber of Commerce believes that this is a shortcoming that Congress can and should address. The Federal payment is not a D.C. subsidy. The Federal payment is compensation for the extraordinary costs to the city for the Federal presence, as well as for the limitations that have been placed on the city's revenues by congressional action. The final plan for the city must include a revenue strategy that will assure the long-term financial viability of the District of Columbia. We urge you to provide a formula-based reimbursement or payment to the city for these costs and limitations, at least for the short-term, to facilitate the city's ability to absorb these costs.

However, without this payment, meaningful local tax reform cannot occur and the city will not be able to financially compete with the surrounding jurisdictions. Businesses make bottom line decisions. As long as D.C.'s tax rates continue to outpace Virginia and Maryland, businesses will choose not to remain or to locate in the city. Further, Virginia and Maryland are reducing their taxes. At this time, the District can not afford to achieve comparability in its tax structure. If the President's Plan was implemented with a payment in place, the city could afford tax reform that would facilitate its ability to grow its economy.

The DC Chamber of Commerce fully supports the creation of the Economic Development Corporation (EDC), the core of the city's economic recovery. The EDC provides an infrastructure to support businesses that might otherwise leave the city and a mechanism to attract new businesses to the city. We are pleased that the six appointed board members of the EDC will either be persons who maintain a primary residence or have a primary place of business in the District. We appreciate the expansion of tax incentives to encourage investment in downtown as well as in distressed communities and suggest that these incentives apply to business investment in the District of Columbia as a whole.

It is important to note that the vitality of the District of Columbia is critical to the vitality of the metropolitan region. In a recent study by Dr. Stephen Fuller of George Mason University, he reported that every $1 generated in the District of Columbia generates $1.50 for the suburbs. Recognizing the economic impact that a larger state-of-the-art convention center will bring to the region, the DC Chamber is requesting that Congress provide Federal assistance to complete the financing of the planned convention center. This is not a unique request. Most of the nation's convention centers have needed external support for development of new facilities. Washington, D.C., the nation's capital, has no county or state to provide such assistance.

Since we appeared before you in February, we are pleased to report that the Chamber-DCRA Permitting Information System is close to completion. Property and tax records will soon be easily accessible and available to the public. Our hope is that this project will become part of the government's ongoing transformation process. Currently, staffing and materials have been provided by the private sector.

Further, Councilmembers Evans and Jarvis introduced the "District of Columbia Workers' Compensation Act of 1979 Amendment Act of 1997." This bill provides financial relief for D.C. employers, without a financial impact on the D.C. budget. And, in the long run, this bill will be a major step for business retention.

Before I close, Congressman Davis, we would like to add that the DC Chamber of Commerce in partnership with the DC Building Industry Association (DCBIA) and the D.C. government has undertaken business retention activities to stop the outflow of businesses from the city. Through a seven-point program that includes expansion of the DCBIA's early warning system, a Business Ambassador Program, Business Roundtables and a dedicated, aggressive team, the DC Marketing Center is already making its mark on D.C.'s business community.

Congressman Davis, we once again urge you to think about Washington, D.C. as the unique and special place that it is and what it should be, a world class capital for government and business. We thank you for the opportunity to appear before you today. If I or any member of the Chamber or its staff may be of assistance to you, please call on us.

Mr. DAVIS. Thank you.

Mr. Schelter, before you testify, I am going to recess. Mrs. Morella is on her way back, and she can start it when she comes. I want to hear you, because I've got some questions to ask you. And I appreciate your being here.

Mr. SCHELTER. OK. That's fine.

Mr. DAVIS. So what I'm going to do is recess the meeting for no more than 10 minutes, and we'll hear your testimony, then take questions.

The committee is in recess.

[Recess.]

Mrs. MORELLA [presiding]. I think I'm going to take the prerogative to take the Chair and see if we can pick up until Tom Davis, the chairman, comes back, which should be soon.

Was it Mr. Green, was he involved in his testimony at that time?

I tell you, may we go on to Mr. Schelter, who is the executive vice president of the Philadelphia Industrial Development Corp?

I appreciate your being here. Thank you very much. I would love to have you proceed with your testimony. Any written testimony will, in its entirety, be included in the record.

Mr. SCHELTER. Thank you. Good afternoon, Madam Chairman.

My name is Craig Schelter. I am executive vice president and chief operating officer of the Philadelphia Industrial Development Corp., called PIDC, the designated economic development agency of the city of Philadelphia. I have been with PIDC since 1983. Prior to that time, I spent 15 years at the City Planning Commission, including 4 years as executive director.

I am honored to be invited to testify here this morning. My comments will focus on just one aspect of the President's plan, and that is the creation of a new Economic Development Corp. for the city of Washington.

While I have not been privy to the discussions on how you propose to structure the new entity in DC, I can perhaps provide some historic perspective and observations about those common elements which are integral to a local Economic Development Corp., if it is to be enduring, successful, and responsive to the local area.

Just a word of history about PIDC. Over the years, the Philadelphia Industrial Development Corp., a private, nonprofit corporation chartered under State law, has been an outstanding example of how an Economic Development Corp. evolves, changes, and innovates, based on the needs of community and on market forces.

Next year, we will celebrate 40 years of a unique public-private partnership between local government and the business community of Philadelphia. PIDC was founded in 1958, a joint creation of the city of Philadelphia and the Greater Philadelphia Chamber of Commerce. We have a dedicated professional staff of 65 people and an operating budget of $6 million.

Since 1958 through the first quarter of this year, we have completed more than 3,300 transactions, totaling almost $4.4 billion. In the process, we have retained 166,000 existing jobs and created 126,000 new jobs, for a total job impact of 292,000 jobs in the city of Philadelphia, and that's against a total payroll of about 676,000 jobs.

I point out on the last page of my testimony, which I can go to later, I included how transactions have increased over those 40 years, mainly with an eye toward pointing out that you have to look at a long-term perspective. If you look at how that $4.3 billion is made up, in the first 10 years, we did about $200 million; in the next 10 years, about $800 million; and then, in the 1980's, we exploded with $2.4 billion; and in the 1990's, we're getting close to $1 billion.

A number of factors are worth considering to create a long-term, viable economic development entity. One, make the organization a true public-private partnership. This must be true at the board and policymaking level. In our case, a governing board of 30 members approves the budget and sets broad policy for the corporation, in close coordination with city government.

The regular business of the corporation is conducted by a 15-member executive committee, 8 of whom are named directly by the president of the Chamber of Commerce. The other 7 are the 7 highest elected and appointed officials in the city government. They are the mayor, the president of the city council, the members of the mayor's cabinet, the commerce director, finance director, managing director, city solicitor, and chairman of the city planning commission.

The remaining 15 members are jointly appointed by the president of the Chamber of Commerce and the city commerce director. This structure has ensured a strong business continuity within the context of changing mayoralty administrations. Furthermore, it has brought broad expertise in finance, law, labor, business, community development, design, and real estate development to the board.

Two, maintain close relationships with existing executive and legislative branches of local government. The importance of a clear, consistent economic development agenda is critical to the business perception of a metropolitan area that things can and do get done.

Key to this effort, in the last 6 years in Philadelphia, has been the city's participating directly in the lending business, using city tax-supported dollars. This initiative was developed under the inspired leadership of Mayor Edward G. Rendell and his administration, working closely with City Council President John Street. This initiative provides flexibility and speed without the encumbrance of certain other Federal and State programs.

We also manage the assets and transact all the business of the Philadelphia Authority for Industrial Development, where we do all manner of real estate, land transfer transactions, including tax-exempt financing. Here again, it is a five-member board that serves at the pleasure of the mayor.

Whether the concern is neighborhood development, loan guarantees for hotel and convention facilities, expanding industrial parks, providing tax-exempt financing, or providing the ability to negotiate directly a development transaction using city assets, a key relationship must exist between the local development corporation and the city administration.

Three, create a professional culture that generates and manages programs that are based on sound planning and financing guidelines. We have created a loan committee from among private sector members of our board of directors. The committee is a key component, which not only ensures that appropriate credit underwriting standards are used, but provides an institutional memory and continuity critical to success.

The results speak for themselves. We have managed to nurture a financial base of the corporation currently consisting of 500 outstanding loans, and we have a default rate of only 2 percent, comparable to the rate of a solid private lending institution.

We are currently marketing nationwide a portfolio management system that provides greater loan portfolio oversight, allows local Economic Development Corp.'s to manage assets more effectively, and increases productivity, especially with regard to tracking requirements associated with Federal dollars.

Four, be entrepreneurial in development of new programs. In the early 1980's, when the first signs of limits on tax-exempt financing appeared, we developed direct lending programs using revolved Federal dollars. This foresight enabled us to stay in business when other IDCs around the country folded. Also, in the 1980's, it became clear that venture capital was lacking in Philadelphia, so we started a small venture fund. The PIDC/Penn Venture Fund was the first municipal venture fund in the country.

In 1992, we expanded our lending capacity to a new market, and we created a nationally recognized $100-million HUD 108 lending program. Half of the fund is available for major hotel development. The other half is a loan pool which is available for manufacturing and other transactions, citywide.

The innovative aspect is that HUD accepted our process and lending criteria for a loan pool, such that each project did not have to be approved individually, thereby creating a flexible pool of Federal money to be used at the local level.

Just this past year, to expand available capital, we successfully securitized an additional portion of our loan portfolio, adding $5 million to assist new business. We also pioneered, in Philadelphia, the use of a novel, if complex, financing tool, tax increment financing. TIFs, as they are called, enable us to close financing gaps, providing access to capital for projects that otherwise would not happen.

Five, be prepared to mix and match the best elements of Federal, State, and local programs. Currently, we have 23 different lending programs. The most successful are those that provide long-term consistency of approach. Taking 1995 and 1996 as an example, we used 19 different programs: 21 percent local, 24 percent State, and 36 percent Federal.

The public dollars funnelled through these programs totaled $237 million, which, in turn, leveraged $100 million in outside financing and $63 million in owner equity, for $400 million in total project costs. I would also point out that one of the programs, the use of Federal dollars, the leverage factor, is about seven to one.

Focus on core businesses. In our case, our emphasis is on financing small businesses, developing the city's industrial land resources in six industrial parks, providing development management services on major projects, and facilitating defense conversion.

Developing an overall mission statement and strategic plan for your core businesses will be critical. Also, the management of certain high-profile projects can bring added credibility to the new corporation. In our case, having leadership roles in the development of our convention center, professional sports facilities, major medical complexes, and our central waterfront afforded us that opportunity.

Seven, attract and maintain a professional staff. There is a need for an entrepreneurial spirit grounded with a sound public policy core. The breadth of issues facing Economic Development Corp.'s requires extensive knowledge of all private development skills, skills born of extensive experience and substantial practical knowledge in specialized areas of planning, private and public finance, and real estate development.

Eight, do not underestimate the value of developer services and expedited permit processing. PIDC innovated and now manages a developer services process on most projects with major job or construction aspects in the city. As part of the process, representatives of every city department that is involved in the permitting process, as well as the public utilities, meet to discuss a project's needs and mesh them with permitting and other public requirements.

I would add, parenthetically, to date we have processed about $4-million worth of projects through this program.

This effectively puts every project on a department radar screen for approval. While no substitute for detailed review by individual departments, it does highlight issues in a timely way, as well as give face-to-face contact to the individuals responsible for ultimate permit approvals.

What I have given you here, briefly, is a snapshot. I would be happy to answer any questions you would have. In the end, I think you need to assume a long-term commitment. As the chart I have included illustrates and my comments support, things do not happen overnight. We have learned a lot over 40 years.

I believe successful urban economic development comes down to local initiative and control, with appropriate Federal resources. It comes down to balancing public and private resources that, in turn, creates business trust. It comes down to a solid, business-like approach, without losing the focus for making economic activity happen across the community.

Without getting into a public policy debate about the adequacy of the funds for this new corporation, it is clear to us that innovation and authority must focus on the local level and be paramount. This can be shared by the government and by the business community, and creates the most hope in balanced strategy in the long run.

Thank you.

[The prepared statement of Mr. Schelter follows:]

TESTIMONY BEFORE
HOUSE DISTRICT OF COLUMBIA SUBCOMMITTEE
INFORMATION HEARING ON MAY 22, 1997, 9:30 AM

Mr. Chairman and Members of the Committee on Government Reform and Oversight District of Columbia Subcommittee. Good morning ladies and gentlemen.

My name is G. Craig Schelter. I am Executive Vice President and Chief Operating Officer of the Philadelphia Industrial Development Corporation (PIDC), the designated economic development agency of the City of Philadelphia. I have been with PIDC since 1983. Prior to that time, I spent 15 years at the Philadelphia City Planning Commission, including four years as Executive Director.

I am honored to be invited to testify here this morning. My comments will focus on just one aspect of the President's plan and that is the creation of a new economic development corporation for the City of Washington, DC. While I have not been privy to discussions on how you propose to structure the new entity in Washington DC, I can perhaps provide some historic perspective and observations about those common elements which are integral to a local economic development corporation if it is to be enduring, successful and responsive to the local area.

Over the years, the Philadelphia Industrial Development Corporation, a private non-profit corporation, chartered under state law, has been an outstanding example of how an economic development corporation evolves, changes, and innovates based on the needs of the community and on market forces. Next year we will celebrate 40 years of a unique public private partnership between local government and the business community of Philadelphia. PIDC was founded in 1958, as a joint creation of the City of

Philadelphia and the Greater Philadelphia Chamber of Commerce. We have a dedicated professional staff of 65 people and an operating budget of $6M dollars.

Since 1958, through the first quarter of this year, we have completed more than 3,300 transactions totaling almost $4.4 Billion. In the process, we have retained 166,000 existing jobs and created 126,000 new jobs for a total impact of 292,000 jobs in the City of Philadelphia. The total jobs number compares with current total payroll in Philadelphia of 676,200 jobs (see attachment).

A number of factors are worth considering to create a long term viable economic development entity:

1. Make the organization a true public-private partnership. This must be true at the board and policy making level. Our governing Board of 30 members approves the budget and sets broad policy for the corporation in close coordination with City government. The regular business of the corporation is conducted by a 15 member Executive Committee, eight of whom are named directly by the President of the Chamber of Commerce. The other 7 are the seven highest elected and appointed officials in the City government. They are the Mayor, President of City Council, and members of the Mayor's Cabinet -- the Commerce Director, Finance Director, Managing Director, City Solicitor and Chairman of City Planning Commission. The remaining 15 members are jointly appointed by the President of the Chamber of Commerce and the City Commerce Director. This structure has ensured a strong business continuity within the context of changing mayoralty administrations. Furthermore, it has brought broad expertise in

finance, law, labor, business, community development, design and real estate development to the board.

2. Maintain close relationships with existing executive and legislative branches of local government. The importance of a clear, consistent economic development agenda is critical to the business perception of a metropolitan area that things can and do get done. Key to this effort in the last six years in Philadelphia has been the City's participating directly in the lending business using city tax-supported dollars. This initiative was developed under the inspired leadership of Mayor Edward G. Rendell and his administration working closely with City Council President John Street. This initiative provides flexibility and speed without the encumbrances of certain federal and state requirements.

PIDC manages the assets and transacts all the business for Philadelphia Authority for Industrial Development (PAID), an industrial development authority created under State Law through which all manner of real estate and financing transactions are possible, including tax-exempt financing. The 5 member board of PAID serves at the pleasure of the Mayor. Whether the concern is neighborhood development, loan guarantees for hotel and convention facilities, expanding industrial parks, providing tax exempt financing or providing the ability to directly negotiate a development transaction using city assets, a key relationship must exist between the PIDC and the City administration.

3. Create a professional culture that generates and manages programs that are based on sound planning and financing guidelines. We have created a loan committee from among private sector members of our Board of Directors. The committee is a key

component which not only ensures that appropriate credit-underwriting standards are used, but provides an institutional memory and continuity critical to success. The results speak for themselves. We have managed to nurture the financial base of the corporation consisting of 500 outstanding loans and we have a default rate of only 2%, comparable to the rate of a solid, private lending institution. We currently are marketing nationwide a portfolio management system that provides greater loan portfolio oversight, allows local economic development corporations to manage assets more effectively and increases productivity especially with regard to tracking requirements associated with federal dollars.

4. Be entrepreneurial in development of new programs. In the early 80's when the first signs of limits on tax-exempt financing appeared, PIDC developed direct lending programs using revolved federal dollars. This foresight enabled us to stay in business, where other IDC's around the country folded. Also in the 80's, it became clear that venture capital was lacking in Philadelphia, so we started a small venture fund. This PIDC/Penn Venture Fund was the first municipal venture fund in the country.

In 1992, to expand our lending capacity to a new market, we created a nationally recognized $100M HUD 108 lending program. Half of the fund is available for major hotel development. The other half funds a loan pool which is available for manufacturing or other transactions city-wide. The innovative aspect is that HUD accepted our process and lending criteria for a loan pool such that each project did not have to be approved individually, thereby creating a flexible pool of federal money to be used at the local level.

Just this past year, to expand available capital, we successfully securitized an initial portion of 56 loans from our loan portfolio adding $5.0 M to assist new businesses. We worked with the nationally-recognized Community Reinvestment Fund to do this.

We also pioneered the use in Philadelphia of a novel, if complex, financing tool called Tax Increment Financing. TIFs, as they are called, enable us to close financing gaps, providing access to capital for projects that otherwise would not happen.

5. Be prepared to mix and match the best elements among federal, state and local programs. Currently, we have 23 different lending programs. The most successful are those which provide long-term consistency of approach. Taking 1995 and 1996 as an example, we used 19 different loan programs, of that 21% are local, 24% state, and 36% federal. Public dollars funneled into these programs totaled $237 million which in turn leveraged $100 million in outside financing and $63 million in owner or equity financing for $400 million in total project costs.

6. Focus on core businesses. PIDC's emphasis is on four core businesses -- 1) financing small business, 2) developing the City's industrial land resources in six industrial parks, 3) providing development management services on major projects, and 4) facilitating defense conversion. Developing an overall mission statement and strategic plans for your core businesses is critical. Also, the management of certain large, high-profile projects can bring added credibility to the new corporation. In our case, having leadership roles in the development of our convention center, professional sports facilities, major medical complexes and our central waterfront afforded us that opportunity.

7. Attract and maintain a professional staff. There is a need for an entrepreneurial spirit grounded with a sound public policy core. The breadth of issues facing economic development corporations requires extensive knowledge of all the private development skills, skills borne of extensive experience and substantial practical knowledge in specialized areas of planning, private and public finance, and real estate development.

8. Do not underestimate the value of developer services and expedited permit processing. PIDC innovated and now manages a developer services process on most projects with a major job and/or construction impact. As part of the process, representatives of every City department that is involved in the permitting process as well as the public utilities meet to discuss a project's needs and mesh them with permitting and other public requirements. This effectively puts every project on a departmental radar screen for approval. While no substitute for detailed review by individual departments, it does highlight issues in a timely way as well as giving face-to-face contact to individual responsible for ultimate permit approvals.

What I have given you here today is a snapshot. I would be happy to answer any questions you might have now. We would also be pleased to provide further information to this Committee if you would find it helpful.

In the end, assume a long term commitment. As the chart I have included illustrates, and my comments support, things do not happen overnight. I believe successful urban economic development comes down to local initiative and control with appropriate federal resources. It comes down to balancing public and private resources, that in turn creates business trust. It comes down to a solid business-like approach without losing the focus for making economic activity happen across the community. Without getting into a public policy debate about the adequacy of federal funds to cities, it is clear to us that innovation and authority at the local level are paramount. This can be shared by the government and the business community and creates the most hope and balanced strategy in the long run. Thank you.

PIDC TRANSACTIONS SETTLED 1959-1996			EMPLOYMENT		
YEAR	Projects Settled	Total Project Costs	Existing	Projected New	Total
1990	43	$163,651,699	3,666	1,081	4,747
1991	43	$43,511,466	2,148	785	2,933
1992	38	$70,301,709	4,481	1,124	5,605
1993	55	$106,872,950	2,538	1,333	3,871
1994	50	$134,741,685	2,564	1,158	3,722
1995	81	$218,570,248	8,960	2,866	11,826
1996	60	$179,199,597	6,466	1,586	8,052
Subtotal 1990s	**370**	**$914,849,364**	**30,823**	**9,933**	**40,756**
Subtotal 1980s	1,622	$2,439,567,946	55,313	50,669	105,982
Subtotal 1970s	917	$817,886,594	42,892	42,285	85,177
Subtotal 1960s	397	$215,558,032	37,080	23,616	60,696
Grand Total	***3,306***	***$4,387,841,926***	***166,108***	***126,503***	***292,611***

NOTE: Statistical analysis has shown a relationship between what happens in the national economy (measured in GDP growth) and PIDC transactions, with local activity lagging behind the U.S. developments. Thus the recession which began in July 1990 (and ended in March 1991) was focused in its impact on PIDC's 1991 activity.

Mr. DAVIS [presiding]. Thank you very much.

Ted Trabue, is Ted here?

Ted, let me swear you in and you can answer some questions.

[Witness sworn.]

Mr. DAVIS. Mr. Schelter, let me ask you, does the city of Philadelphia have a requirement in its contracting out of having city residents?

Mr. SCHELTER. No, we do not.

Mr. DAVIS. OK. The city of Philadelphia I think has been a model, in many cases. You have a lot of the tough problems that just don't go away, given demographics, aging infrastructure, and the like. Yet, under Mayor Rendell—and I just single him out—he has been very proactive in, instead of complaining about it, dealing with it, dealing with the unions, dealing with some legislative structures that aren't necessarily conducive to economic development.

But would you agree that one of the key components is working in partnership with the business community? Isn't that what you've really done here?

Mr. SCHELTER. Yes, he has been an unbelievable cheerleader for the city and for the business community. At the drop of a hat, he will get on a plane and fly to the West Coast for a potential investor or developer in the city. And he has done this largely in concert with our corporation, and has turned to us, then, to implement a lot of his initiatives.

Mr. DAVIS. Leadership can make a big difference. You know, I will tell you, in Fairfax, we literally brought companies in—because when I was the head of the county government, we were proactive and went out and recruited them, and we made commitments.

You made a note about timing, getting the permits and plans, and how quickly it can happen. That is critical. And if you make a commitment, you've got to adhere to it. But to do that, you have to have a team of inspectors that work well. You've got to have information technology and logistics work out. How have you been able to deliver on those kinds of things?

Mr. SCHELTER. Well, the Developer Services Committee, which I mentioned in my testimony, is convened on behalf of the city's commerce director, who is one of the mayor's cabinet. We staff that function. We have a former head of the Department of Licenses and Inspections in the city that is a consultant to us. And we have our Special Projects Division staff that.

On every project, whether it's a major job component or major capital investment, at the time the schematic plans are set, we convene a group of about 18 people around a table. It's at a deputy commissioner level among the Departments of Planning, Streets, Water, Fire, managing director, LNI, and we go over those plans.

Everybody gets a chance, one, to raise what their issues are. And that developer or that business leaves with not only the business card of the person, they have met them face-to-face, they know what the issues are, they know what the timing is on the permit. And the Commerce Department then rides herd to make sure that comments get back to the developer in a timely manner.

And that has been a very successful thing. Again, it's more the predictability of the way business is done. It doesn't substitute for individual departments doing their thing and doing their review, but it puts them on notice that this is a project that is supported by the administration at the highest level and where there is an expectation of a timely review process.

Mr. DAVIS. It's focus. Just a lot of it is focus and follow-through, which is tough, day-to-day, when you are bombarded with so many things and limited staff.

Mr. SCHELTER. May I go back?

Mr. DAVIS. Yes.

Mr. SCHELTER. I answered your first question too quickly, I'm afraid. You asked if there was a focus on hiring locally. While we do not have a specific requirement of the businesses that we lend to to do that, we clearly do encourage them in that regard.

Mr. DAVIS. Absolutely.

Mr. SCHELTER. And also, among the consultants that we hire, generally, our board, the first question they are going to ask, if they see it's a consultant from outside of the city, is why it was necessary to go to a consultant from outside the city, given the fact that we've got lots of talent in the city.

So while we will never back off from hiring someone from outside if they have a particular expertise, we try to keep business local.

Mr. DAVIS. Absolutely. And I don't know a jurisdiction in the country that doesn't do that. That's just good home-grown, hometown bias that we ought to have. If you can't get it in your hometown, where can you get it? But it's the difference between a requirement, where you start actually, in some cases, lowering the bar, and then that raises a whole host of other issues that I think don't recognize the changing dynamics of the marketplace.

Let me just ask my friends from the Chamber and the Board of Trade. Do you agree that an Economic Development Corp. would give the kind of focus that is needed to the city?

Mr. GREEN. I think it's extremely important. We support it strongly. But, again, Mr. Chairman, I go back to what I have said consistently and I think I've heard you all say, and that is that there have to be some other things, as well, expediting permitting, all those other things.

Mr. DAVIS. Absolutely. And let me just say, I think, as part of what we do here, I hope we can do that. And I think we could all sit around, but those make such great sense and there is such a consensus on those kinds of things.

Mr. GREEN. We at the Chamber have been very involved with the Department of Consumer and Regulatory Affairs on a permitting project that is nearing fruition and is up and running. And that has been initiated out of the DC Chamber of Commerce.

Mr. DAVIS. Also, bringing down taxes and regulation, in general. You've got to lower the burden structure. I've talked to a lot of my businesses. Why aren't you in DC anymore? Why are you doing this? And they just say it got so bad, you know. The question is, it got so expensive. And that doesn't help anybody. So people vote with their feet. And a lot of people would like to be in the city.

Mr. GREEN. The emphasis I keep coming back to is, the Economic Development Corp. plus those other programs and services around the corporation will create the right kind of environment. One of the bills that we are pushing is the reduction in Workers' Compensation taxes.

Mr. DAVIS. I even heard the mayor say good things. But, you know, talking about it and getting it done are two different things.

Mr. GREEN. Or the Council. And we're pushing it very hard.

Mr. DAVIS. Exactly. And we want these decisions to be made at the local level, to the extent they can. I think it's instructive for the local level to understand what it takes to build and maintain a tax base. These are not automatic. You can't bully businesses into staying and giving things anymore.

Business wants to give. I mean, they are the employer. They are the contributors to the charities. They drive the tax base that has you pay for education and human service and all these other things. But the bottom line is, they have to answer to a group of shareholders, and if they can't substantiate a profit, they are going to move on.

Unfortunately, over the last decade and a half, we have seen a marked exodus from the city. Now we're stuck where, despite the best intentions of some of the rules that were passed, they end up being very anticompetitive and burdensome.

We all want the same things.

Mr. Trabue, do you want to say anything? I got you up here, and I want to put you on the record here. Is this your first congressional hearing?

Mr. TRABUE. Yes, it is. Thank you very much, Mr. Chairman.

Mr. DAVIS. Well, I want you to say something.

Mr. TRABUE. Thank you for inviting me to appear before you today. I would agree with Mr. Green's comments. We believe, at the Board of Trade, that the regulatory environment in town and the taxing climate must be coordinated and must be improved.

The Economic Development Corp. is a primary source of an area where we can bring some focus to these efforts and really realize some true economic development in our region.

Mr. DAVIS. Thank you. Thank you very much.

Were you here for Mr. Moran's comments earlier in the day?

Mr. TRABUE. Yes, we were.

Mr. DAVIS. I've got to believe you liked them. Jim, I think, is right on target. And I'm not trying to put him against Ms. Norton's plan. You have to look at, with a given amount of dollars, what's the best thing we can do. But bringing down those local business taxes is just absolutely critical.

Mr. TRABUE. I support that wholeheartedly. The only issue I raise is that, as we bring them down, we've got to be sure that the city is stable and has some revenue stream during that period of time that the economic engine begins to be energized. So that's the only issue, how do you get that revenue stream at the same time that you're bringing down the taxes?

Mr. MORAN. We're going to have to close up anyway, but the idea would be that we would have to substitute the loss of DC revenue. Because, presumably, when you fix it, there is some reduction of revenue. I'm not sure how much. I'm not sure anybody knows how much.

Mr. DAVIS. Short-term anyway.

Mr. TRABUE. That's what I'm saying, short-term.

Mr. MORAN. In the long run, it's going to bring a lot more revenue in, and it's going to be private revenue.

And I can understand why the business community prefers the 15 percent flat tax, because that's a loss of Federal revenue; it's not a loss of local revenue. Presumably, we can better afford it than DC.

Having talked with Tom and from what he is saying now, I don't think there is any disagreement, and apparently there's no disagreement with you. And this is the best opportunity. Let's fix the local tax structure and make it sensible, but also make it competitive with the metropolitan region.

And then we've got to figure out a way to replace any lost revenue. Maybe that's from an exact pilot, an exact payment in lieu of taxes, which Brookings estimates at about $382 million.

But, anyway, Mr. Chairman, thanks for having the hearing. Thanks for doing all that you're doing. And thanks for getting good people like this as witnesses. We will look forward to working with you.

Thanks.

Mr. DAVIS. Thank you very much.

Mr. TRABUE. Thank you very much.

Mr. DAVIS. Mr. Green, thank you for being here.

Mr. Trabue, thank you, on your debut here. Probably the first of many hearings, but we appreciate having you here.

And Mr. Schelter, special thanks to you for coming down from Philadelphia.

Mr. SCHELTER. My pleasure.

Mr. DAVIS. You have been, in many ways—when you do something right—not everything you've done right—but, I mean, by and large, you've done it right, and you can be a model for other places to copy, to look after, to emulate. Again, our congratulations to your mayor, who I think is really one of the outstanding mayors in the United States. Give him our best.

Mr. SCHELTER. Thank you. I'll tell him.

Mr. DAVIS. Thank you very much.

Without objection, the record will remain open for 10 days.

Without objection, I ask that any written statements from witnesses or Members be made part of the permanent record.

The subcommittee will continue to work with all interested parties in an ongoing effort to continue the progress that has been made.

These proceedings are closed.

[Whereupon, at 12:30 p.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]

Good morning. My name is Andrew F. Brimmer, and I am Chairman of the District of Columbia Financial Responsibility and Management Assistance Authority ("Authority"). I am pleased to be here to testify on the National Capital Revitalization and Self-Government Improvement Plan, known as the President's Plan for the District of Columbia (the "President's Plan" or "Plan"). As you have requested, I will focus my remarks this morning on the Economic Development portion of that Plan.

Introduction

The Authority is pleased that the Mayor, the Council of the District of Columbia and the Director of the Office of Management and Budget last week signed a Memorandum of Understanding that helped move forward the prospects for implementing the President's Plan. Additionally, in a May 13, 1997, letter sent to OMB Director Raines at his request, the Authority provided its overall support for the Plan and the positive impact we believe it would have for the District, and we also provided some recommendations for improvements to the Plan.

The Authority's Strategic Plan ("Strategic Plan"), released in December, 1996, concluded that one of the most basic reasons for the District's continued financial problems is the fact that the Nation's Capital is not supported – as is every other city in the United States – by a state. Throughout the country, states relieve some of the burdens on their cities in numerous ways for which the District has no recourse. The Federal Government is logically – and by default – the District's state. The burden and costs that other states bear for their cities need to be borne for the Nation's Capital by the Federal Government. The Authority believes that a more equitable structure to support public services must be developed. Our Strategic Plan highlighted – and our April report, *Toward A More Equitable Structure*, reinforced – for inclusion in such a structure, the areas of prisons, Medicaid, mental health care, roads and bridges maintenance, and several other items.

Economic Development

Mr. Chairman, the Authority included the issue of economic development in its Strategic Plan. At that time, we said that the economic development opportunities for the District of Columbia are enormous, but for several years have remained beyond the City's reach. One of the principal ways in which the Authority has helped to improve economic development is by enhancing the City's basic quality of life. Thus, we have focused on those areas most likely to keep residents from leaving the City – public safety, public education, and public works.

The Authority also recognizes the many institutional impediments to economic development and growth in the District. Such issues as the need for tax revision, regulatory reform, and streamlining the organization and business-process infrastructure of the District government are necessary to the success of the City's economic revitalization. The Authority also recognizes that there must be a coordinated regional effort involving the full participation of both the Federal government and stakeholders in the surrounding cities to promote economic development. To this end, we committed ourselves, in the Strategic Plan, to this summer hold hearings and issuing to the District government a report with recommendations on changes in the economic development area that will benefit the District's growth.

President's Plan

Mr. Chairman, the Authority strongly supports the President's Plan with respect to the initiative for Economic Development. I believe it is important to recognize that significant improvement to the District's revenue base and its opportunities for growth are unlikely in the absence of a strong, coordinated effort along the lines being proposed – namely, the creation of an Economic Development Corporation.

Let me be clear: while some critics have questioned the need for such a corporation at this time, and contend that its creation potentially undermines Home Rule, the Authority takes the opposite view. The proposed Economic Development Corporation, properly implemented and structured, represents one of the most promising opportunities for revenue growth, job expansion and quality of life improvements for the City in recent years. The

District of Columbia would greatly benefit from the implementation of the Economic Development Corporation.

Let me now discuss the specific aspects of the President's Plan for Economic Development. The Authority supports the President's initiative in designing a $300 million package to support revitalization and economic development in the District of Columbia. The plan calls for $50 million in start-up funds for the corporation, and $250 million in tax incentives and credits.

The Economic Development Corporation is one of the key building blocks for the Plan. The entity will have very broad powers to undertake the revitalization and economic development of the District of Columbia. The Economic Development Corporation provides an efficient mechanism to pool the interests and resources of the Federal and District governments, private developers, land owners, non-profit organizations, philanthropies, and neighborhoods. Better than other existing or proposed mechanisms, the corporation will be in the best position to take an overall District (and regional) focus. A corporation of this nature will improve our coordination for such initiatives as the Downtown area, the Anacostia Business District, Monumental Core Area, New York Avenue Corridor, and the waterfront. Equally important, the corporation will effectively help to provide new opportunities for the District's critical task of attracting and retaining the right mix of business to support the City's long-term growth.

In addition to providing the start-up funds for the Economic Development Corporation, the President has proposed $250 million in federal tax incentives and credits for new businesses and jobs created in the District. The incentives and credits include the following:

Job credit ($133 million)—40% tax credit for employers on the first $10,000 of wages, health benefits or educational assistance paid to newly hired low-and moderate-income District residents.

Capital credit ($79 million)—to lenders or investors providing capital to District businesses. They would be eligible for up to $95 million in tax credits. The credits would apply to 25% of the amount loaned or invested.

Deduction of Equipment Expenses ($20 million)—to encourage expansion of small businesses in distressed areas, where at least 15% of the population is at or below the poverty level, up to $20,000 per year.

Private Activity Bonds ($2 million)—for commercial and retail development in distressed areas, if District residents compose at least 35 % of the work force.

Impact of the Plan

Mr. Chairman, you asked that the Authority address the potential effectiveness of the President's proposal for assisting the District in revitalizing the City's economy. As stated earlier, the Authority welcomes the much needed stimulus. The District has operated at a disadvantage, without the Federal support to absorb the cost and provide the incentives typically provided by the state. The economic development plan is expected to generate incentives that will induce greater business activity in the District of Columbia and hence greater taxable revenue. The degree of the impact will vary with the way the programs specifically target business and income specifically taxable in the District of Columbia.

The Authority thinks it is important to recognize that the District and Federal Government must develop a shared vision about the best way to modify the District's future revenue stream. Currently, the District's economy, and its actual and potential sources of taxable income, are intricately linked to the Federal presence. This is illustrated through numerous factors, most obviously, the high share of jobs derived from the public sector, the large presence of for-profit entities located in the District to provide goods and service to the Federal government, and the large number of non-profit and membership organizations that set up businesses in the District, which are exempt from property tax. The Federal presence is also noticeably incorporated in the District tax statues, which restricts the District's ability to raise revenue in a way similar to other states. Effective leverage of the Economic

Development Corporation would clearly help to further mitigate the burdens placed on the City as the nation's capital.

In recognizing that the entire region gains whenever job growth in the District occurs, the Authority believes that the President's Plan will be most effective if the economic development programs are targeted to locate businesses that generate taxable income in the District of Columbia and that provide jobs for District residents. In other words, it will not be enough to just create jobs in the District. The job growth must target District residents to obtain the greatest potential returns from the President's Plan. To the extent that jobs are created in the District, but not held by District residents, they create windfalls for neighboring jurisdictions at the expense of tax credits targeted for the District of Columbia. It is important to ensure that the primary beneficiaries of the revitalization dollars are D.C. residents and, hence, the District.

Mr. Chairman, the District faces a unique problem not faced by any other state jurisdiction. Under the current laws, income earned in the District is taxed by place of residence rather than place of work. This is not true for any other state in the country. The result is that the District loses over 60 percent of its income base for tax revenue purposes. However, without careful targeting, it is quite possible for the District to obtain a much reduced share of the potential income generated under the Plan.

There is clear evidence that other states, primarily Maryland and Virginia, gain substantial tax revenues from income earned in the District. Effectively, this allows other states, such as Maryland and Virginia, to collect tax revenues from District-based sources. While there is more and more two-way commuter patterns between the District and Maryland, and the District and Virginia, the evidence suggest that a substantial portion of the earnings in Maryland and Virginia remain in those states. Given the nature of the District's tax code, the District is not allowed to tax income earned in Maryland and Virginia by D.C. residents – accounting for many millions of dollars.

As it now stands, the District is not competitive with the region, especially with regard to taxes. Given the current revenue and expenditure profile, efforts to reduce the District's tax rate levels will be accompanied by falling revenues. The Authority believes that the Federal government should explore broader revisions in the District's tax statues that would help to both lower the District's local taxes and restructure the District revenue stream. The end result should encourage both citizens and businesses to return to the District.

Finally, the Authority believes that the Federal government's presence can be used to encourage businesses to locate in the District. Federal decisions affecting office sites, office expansion, or downsizing that may impact the District can be balanced against the President's goals to revitalize the District.

In conclusion, the Authority believes that the President's Plan for economic development represents an historic opportunity for stable, long-term growth for the District in terms of jobs, revenue and business development. The Authority looks forward to working with the District and the Federal governments in the months ahead to realize our common goal of revitalizing the nation's capital.

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Mr. Chairman, this concludes my statement. I ~~would~~ happy to respond to questions that you or members of the Subcommittee have at this time.